

A. 50

1 IN THE UNITED STATES DISTRICT COURT
2 FOR THE DISTRICT OF DELAWARE
3

4 -----
5
6 IN RE: ADAMS GOLF, INC. : CONSOLIDATED
7
8 SECURITIES LITIGATION : C.A. NO. 99-371-KAJ
9
10
11 -----
12
13

14 ORAL DEPOSITION OF BRIAN LANTIER
15

16 Monday, June 5, 2006
17

18 The oral deposition of BRIAN LANTIER
19 was held at the Wyndham Syracuse Hotel,
20 6301 Route 298, East Syracuse, New York,
21 from 12:00 noon to 4:59 p.m., before
22 Cynthia A. Sanders, a Certified Shorthand
23 Reporter in and for the State of New York
24 and Registered Professional Reporter.
25

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1 impact that it was going to have -- At that time the
2 market segment leaders Adams, with Orlimar attempting
3 to complete their IPO at the same time, and the new
4 Callaway club achieving some success on the PGA Tour,
5 that became something we had to follow monthly, as
6 well; as far as how many Adams clubs or Callaway clubs
7 or TaylorMade clubs are being carried by specific pro
8 players.

9 Q Was there a specific purpose of keeping
10 them abreast on these subjects?

11 A Other than being part of a team -- As an
12 investment banker post-IPO, your relationship with a
13 company does not go away. So the investment bankers
14 continuing to have a relationship with the -- with
15 Adams Golf, and I felt arming them with the most
16 information on the market would be the best thing
17 possible. It would make them more educated in their
18 discussions with Adams on what was happening in the
19 marketplace.

20 Q Was it your understanding, in August of
21 1998, that Lehman was considering doing a further
22 offering with Adams at some later date?

23 A I was not aware of that or at least -- No,
24 I was not aware of that.

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1 Q Was -- Did you come to the conclusion, at
2 any time in 1998, that Adams had adopted a stock
3 buy-back program because of the decline in its stock
4 price?

5 MR. McEVOY: Object to the form.

6 A I don't recall what the -- I do recall
7 something about the stock buy-back program, but I
8 don't remember when it was instituted or who suggested
9 the program.

10 Q Do you recall having any involvement in the
11 decision by Adams to adopt a stock buy-back program in
12 the sense that you had provided information that was
13 acted upon?

14 MR. McEVOY: I'm just going to object
15 to the form again. Go ahead.

16 A I don't recall being party to those
17 decisions.

18 Q On that Exhibit 218, the specific words
19 used next to status August 1998 were, quote: Finis
20 wanted help understanding why ADGO stock price still
21 low and investor sentiment in preparation for board
22 meeting.

23 What sources did you have, in August of
24 1998, for assessing investor sentiment in Adams stock?
25

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1 A I can't recall any specific investors, but
2 it would have been just a general gauge of those
3 people that were still calling in, checking on the
4 stock to gauge what that sentiment was. But I can't
5 recall who those investors were or what that sentiment
6 was.

7 Q These were primarily institutional
8 investors --

9 A Yes.

10 Q -- or by that point, were you also getting
11 retail investors?

12 A For the most part institutional investors.
13 I don't recall really speaking to any individual
14 investors.

15 Q Let me show you now what we have talked
16 about before, Exhibit 180. This is a research report
17 on Adams Golf, Inc., dated August 28, 1998.

18 (Document handed.)

19 (Witness reviewed document.)

20 Q Do you recognize this document?

21 A Yes.

22 Q And were you the primary draftsman of it?

23 A Yes.

24 Q Can you explain to me how heavily
25

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1 Mr. Picchi was involved in writing it?

2 A I probably gave him a document 90 percent
3 completed. And Mr. Picchi is a skilled wordsmith, and
4 he would -- he had been writing research reports, at
5 this time, for 25 years, so he clearly was able to
6 tweak it and make the document flow better than the
7 one I had offered to him.

8 Q As to page 27, which is the appendix
9 regarding the pro shop survey. Did Mr. Picchi have
10 any role in that particular page, that you can recall?

11 A He may have -- He may have participated in
12 the pro shop survey to some degree, but in terms of
13 the preparation of the document, for the most part, it
14 was a page that I had written.

15 Q As specifically as you can, please tell me
16 what the pro shop survey was?

17 A It consisted of picking up the phone and
18 dialing. We had a list of the -- either the 50 or 100
19 largest pro shops across the U.S., and basically it
20 was just calling their retail locations and asking
21 them a few questions about the drivers. Some people
22 were very good in providing information, others not so
23 much, and we were able to garner a lot of good
24 information about what was happening in the
25

33 (Pages 126 to 129)

A. 51

MINUTES OF A SPECIAL MEETING OF
THE BOARD OF DIRECTORS OF

ADAMS GOLF, INC.

October 19, 1998

A Special meeting of the Board of Directors of ADAMS GOLF, INC., a Delaware corporation (the "Corporation"), was held by conference telephone call whereby all participants could hear each other. The meeting was held in accordance with the provisions of Article 141 of the General Corporation Law of the State of Delaware on the 19th day of October, 1998 beginning at the hour of 9:30 a.m. central time.

The following directors constituting a quorum participated in the conference telephone meeting:

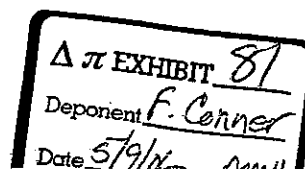
B.H. Adams
Paul F. Brown, Jr.
Roland Casati
Finis Conner
Mark Mulvoy
Richard Murtland
Stephen R. Patchin
John Simpson

Darl Hatfield, Senior Vice President, Finance and Administration, Chip Brewer, Senior Vice President Sales & Marketing, and Patty Walsh, Director, Investor Relations, participated in the meeting at the invitation of the Board of Directors.

An information packet concerning the Company's 3rd quarter 1998 results, 4th quarter 1998 and fiscal year 1999 forecasts were provided to all Directors in advance of the meeting. After the Chairman called the meeting to order, a general discussion of these documents took place and is recapped below.

Costco

In response to questions concerning Costco's effect on projected 4th quarter 1998 sales, Barney Adams and Chip Brewer reported that Costco has significantly increased its inventory of Tight Lies, using unauthorized diverters, and is selling the graphite club for \$149. Adams authorized retailers in Costco's territories are under pressure either to (1) match Costco's price resulting in substantially decreased margins, or (2) maintain a \$199 price and risk consumer backlash. The result has been a slowdown in sales to retailers in these areas which is expected to continue throughout the 4th quarter. Management is working to identify the retailers who are supplying Costco. In addition, management is



ADAMS 004519

working with legal counsel to determine what actions may be taken to prevent authorized retailers from diverting product to Costco.

Orlimar's clubs have begun to appear at Costco at \$199 graphite. Suggested retail is approximately \$269 providing up to a 50% margin to their top retailers. Callaway's new Steelhead clubs have not been seen in Costco. The Steelhead, in graphite, retails for approximately \$249 with a 30% to 35% retail margin.

1998/1999 Financials

The Board requested copies of the Company's previous 1998 and 1999 projections for comparison with current estimates. Darl Hatfield will provide these at the 10/28/98 Board of Directors meeting.

4th Quarter 1998 Projection

Selling and Royalty expense for the 4th quarter reflects an increase over the 3rd quarter 1998 with a significant reduction in sales estimates. Darl Hatfield noted that part of the increase in expenses can be attributed to production costs for the new Tight Lies infomercial, creative and production costs for the new driver infomercial and costs associated with the bag promotion. Additional discussion took place regarding variable expenses and professional services.

The Board recommended that management review the 4th quarter 1998 budget to determine if reductions in expenses could be made in order to improve operating results.

Details of the 4th Quarter 1998 and the 1999 Annual Forecasts were requested to be provided at the October 28, 1998 Board of Directors meeting.

General Market Conditions

In response to questions concerning the golf equipment market in general, Chip Brewer reported that Adams and its competition all appear to be experiencing a slowdown in the market. Sales during the 3rd quarter filled the retail channel. Retailers have reported to Adams management they think Orlimar will begin to suffer due to their high rate of returns, pricing policies and the appearance of their products at Costco.

Share Repurchase Program

Darl Hatfield reported, due to concerns expressed by the Board, the share repurchase program has been temporarily discontinued until after the conference call with investors and analysts.

Third Quarter 1998 Conference Call

In response to questions concerning the October 23, 1998 analyst teleconference, Barney Adams stated the message to be communicated is that the golf market is very soft and Costco makes the situation more difficult. It was added that the continued investment in R&D should be highlighted as well, pointing out that the Company is on track to introduce the new driver in early 1999. In addition, the Board indicated the Company should clearly acknowledge the gray market which has developed in the Company's

distribution channel and that management is working to resolve this issue which is expected to take through the end of 1998. The Board further recommended that Joe Hoffman, outside counsel with the law firm of Arter & Hadden LLP, be included in the teleconference scripting/rehearsal.

Analyst Reports

The Board requested a copy of all future analysts' reports.

Directors & Officers Insurance

Darl Hatfield reported he has requested estimates to increase D&O insurance from \$7.5 million to \$15 million, \$20 million, \$30 million, and \$40 million.

Driver Update

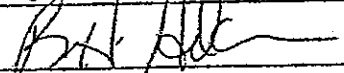
Dick Murland reported driver development is on track with a target introduction date of January 1999. Barney Adams noted that Nick Faldo has been involved in the driver development process and will participate in the advertising as well. The driver is expected to retail between \$350 and \$400. Teaser ads are expected to be used prior to the introduction.

Next Board Meeting


The next Adams Golf Board of Directors meeting is scheduled for Wednesday, 10/28/98 with dinner on the preceding evening.

There being no further business to come before the meeting, upon motion duly made, seconded and carried, the meeting was adjourned at 10:40 a.m. central time.

CHAIRMAN OF THE MEETING:


B.H. Adams

SECRETARY OF THE MEETING:


B.H. Adams

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Fax

To: Sally	From: Scott
Fax: 253-661-4558	Pages: 6
Phone:	Date: October 15, 1998
Re : COSTCO	

Sally,

Good morning!!

I have included you on the COSTCO BUSTER team. Its me, you, Matt, and Jeff.

They got these inventories for me yesterday. The blank stores are on the spreadsheet are yours. We are going to do inventory checks every 2nd Wed. with the next one on Wed. Oct. 28, 1998.

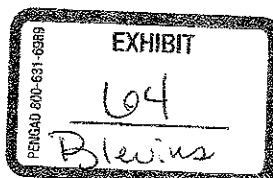
They simply called a location - said that they were having a company golf tournament and that they wanted to buy clubs for everyone.

Our product code in Costco is 25926.

Please make this priority number one. I am due to fax Chip information today on the Costco situation and I want to include inventory reports.

Thanks,

Scott



ADAMS 001524

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SCOTT BLEVINS

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IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

IN RE: ADAMS GOLF, INC. : CONSOLIDATED
SECURITIES LITIGATION : C.A. NO. 99-371 KAJ
_____ X

ORAL DEPOSITION OF SCOTT BLEVINS
Wednesday, May 3, 2006

The oral deposition of Scott Blevins was held at the law offices of Akin Gump Strauss Hauer & Feld, LLP, 1700 Pacific Avenue, Suite 4100, Dallas, Texas, from 9:36 a.m. to 2:26 p.m., before Jamie K. Israelow, a Certified Shorthand Reporter in and for the State of Texas, Registered Professional Reporter, Certified Realtime Reporter and Certified LiveNote Reporter.

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1845 Walnut Street, 15th Floor
Philadelphia, PA 19103
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SCOTT BLEVINS

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1 when he asked you to do that?

2 A It was fairly close to when I moved

3 into that new role in October --

4 October/Novemberish sometime time frame, if I

5 recall.

6 Q And I assume you met with Chip Brewer

7 about what he was trying to accomplish with this

8 group, obviously?

9 A Well, the -- this group was the

10 existing people that we had out in the field

11 already, so there wasn't a specific group put

12 together that -- to --

13 Q Oh, okay.

14 A -- to figure out any issues. This

15 was just the group of people that I already

16 managed as regional account coordinator

17 supervisor.

18 Q I see. Okay. And that was 13?

19 A The 13.

20 Q Okay. That's too many people. I'm

21 not going to ask you their names.

22 A Yeah.

23 Q Okay. So you met with Chip Brewer.

24 What did Chip explain to you he wanted done? How

Page 15

1 did Chip explain it to you?

2 A He basically wanted to see if I could

3 find out where clubs were coming from. There were

4 some clubs in Costco, see if I could track it

5 down.

6 Q Was that a natural fit for your

7 position in the company at the time?

8 A I don't know. I was the only one

9 that had contact with the outside folks, so if we

10 had investigated on the outside, it seemed like it

11 would be a natural fit. No one else had

12 interaction with the outside regional account

13 coordinators.

14 Q Did -- well, didn't members of the

15 inside sales staff have -- I'm just trying to

16 understand.

17 The inside sales staff would

18 call to outside retailers or green-grass accounts

19 or vendors trying to make sales?

20 A Correct.

21 Q Did they have contact with these

22 outside accounts beyond that? Were they

23 marketing --

24 A Who is they?

Page 16

1 Q Inside sales group people.

2 A Okay. Yes. One time a year.

3 Probably one time a year at the PGA show, when

4 everyone would go to the show and meet with them.

5 Q So again, I'm just trying to

6 understand the structure.

7 So as far as -- using the

8 shorthand, as far as schmoozing or going to meet

9 with the outside, that was your group's

10 responsibility?

11 A We didn't -- I wouldn't say schmooze

12 with the customers.

13 Q Right.

14 A The only thing --

15 Q Customer relations?

16 A The only thing we were concerned with

17 at that point, again, since we weren't sales --

18 Q Right.

19 A -- was where our clubs were

20 positioned in the store and if we had good

21 presence and position in the stores so someone

22 would walk in and see it and hopefully buy the

23 club.

24 Q I see. Okay. Were you surprised

Page 17

1 when Chip Brewer approached you about the -- what

2 we're calling the Costco issue?

3 A Not necessarily.

4 Q Had you heard about any problems with

5 clubs appearing in Costco prior to Chip Brewer

6 approaching you about it in October of 1998?

7 A Yes. I believe I knew -- I had heard

8 rumblings about it, and I believe even a few of --

9 my regional account coordinators had mentioned

10 something about it prior to him talking to me in

11 October.

12 Q When did you first hear about clubs

13 showing up in Costco?

14 A I don't recall the exact date.

15 Q Spring? Summer? Fall?

16 A I couldn't even guess.

17 Q Again, and we're talking 1998 for --

18 spring, summer, or fall of '98.

19 A Yeah, I'd hate to guess at the exact

20 date, but it was probably prior to when he talked

21 to me about it.

22 Q Okay. What were the rumblings? You

23 said you had heard rumblings about it. What were

24 the rumblings?

5 (Pages 14 to 17)

A. 54

Debra L. Lopez

From: Scott T. Blevins
Sent: Tuesday, October 20, 1998 3:48 PM
To: Sales
Subject: Selling Around the Costco issue

Hello everyone. As you may know, I have been appointed to tackle the Costco fiasco. I am sure you are receiving calls on this subject, and while no customer will be satisfied until we are out of these stores, we need to make sure that concerned customers understand the magnitude of the problem for us and what we are doing to correct it.

I have used this in the field on numerous occasions and it works.

Customer: "Why are you selling to Costco?"

Response:

1. Listen to the customer complain. Do not interrupt them, let them spill everything (they will feel better even if you don't have a good answer for them!)
2. Assure the customer that you understand it has a negative impact on their business. Assure the customer that it is our number 1 area of concern and that we are working the problem.

Customer: "How are you working the problem? When will it be fixed?"

1. Long Term- We filed a Bill of Discovery against Costco on June 9, 1998. We filed it in order to determine whether Costco's claims that they have properly acquired our Tight Lies woods for resale were accurate. The official press release is available to send to our customers. We do not want to arbitrarily send this to everyone (why wake a sleeping customer??) but we want to use it to make sure the customer understands that Costco is an unauthorized account.

Note: The legal process is hardly ever a short term answer to a problem - so see #2 and #3.

2. Mid Term- We are in the process of acquiring a very expensive piece of equipment to label our golf clubs. New products will be marked and we will be able to track product. This process should be in place by Jan. 1, 1999.
3. Short Term- The bag promotion. We are focusing all of our resources on a "Costco Buster" program. We are giving the retailer a chance to sell Tight Lies (and maintain a margin) by providing consumers a value added piece that Costco cannot offer.

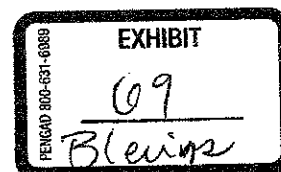
Note: We are not the only company in Costco. Callaway, Taylor Made, Orlimar, Odyssey, and Maxfli do not sell to Costco, but are in the stores as well. Callaway and Odyssey are feeling the heat from retailers and are also looking into marking their products.

Again, use this to answer objections and be assured that I have put the process in place to identify accounts reselling our clubs. I am sure that we will solve the issue, but it will take some time.

I hope this helps.

Thanks,

Scott Blevins
 Manager - Regional Account Coordinators



ADAMS 001562

A. 55

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Tel: 972-673-9673



From the desk of
B.H. (Bamey) Adams

Memo

To: Paul Brown, Roland Casati, Finis Conner, Mark Mulvoy, Dick Murland,
Steve Patchin, John Simpson

Date: October 8, 1998

RE: 4TH QUARTER

One thing that is hurting us badly is Costco. It was a problem before, but has greatly escalated in the last two weeks and will be very difficult in Q4 (Christmas).

- A. We don't sell Costco.
- B. They have previously bought our product through some of our customers looking to make a quick buck. This is a modus operandi for Costco. We were never able to trace sources, we attempted to file suit but were unsuccessful.
- C. We committed \$125K to an engraving machine which will engrave a serial number on the hosel of every club head. It's a long lead time product and requires sophisticated installation with our computer system providing tracing ability. The machine should be up and running by end Q4.
- D. In the meantime, the product volume at Costco has increased dramatically (as of the last two weeks), and to our great surprise we are relatively sure their source is one of our largest retail accounts. (A process of elimination with this new volume, not a paper trail.)

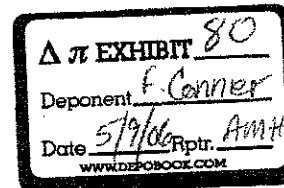
Costco makes its money from memberships. They buy a hot product like ours and sell it at a low price (\$149.00 for graphite). Our normal channels can't compete, retailers get mad and stop buying. We can:

- A. Buy the product out of Costco. (They'll just get more).
- B. Compensate our retailers.

We estimate a negative sales effect in Q4 of 20%-25% based on a market survey (customers who refuse to buy). We are countering with our Thank You America program where you get a free \$150.00 stand bag with the purchase of two Tight Lies®, and Costco does not participate.

Except for a lesser amount in the pipeline we'll have this under control by Q1 '99, but it's a problem that has become a major issue in the last two weeks.

BHA:afn



ADAMS036832

A. 56

4

4 PGA TOUR PROS ASK BARNEY NEWSLETTER DEMO DAYS CRAFTSMANSHIP PRESS RELEASES CONTACT US

4 BACK

ADAMS IN THE NEWS**Adams Golf Comments on Fourth Quarter Outlook**

-1/7/99

PLANO, TEXAS, JANUARY 7, 1999—Adams Golf (NASDAQ:ADGO) announced today that due to lower than anticipated sales and certain charges to operations, the Company expects to report a loss of between \$.17 and \$.19 per share for the quarter ended December 31, 1998. The Company intends to report actual fourth quarter results during the week of February 1, 1999.

Adams Golf attributes the lower than expected sales to continuing weakness in the golf equipment market and the gray market distribution of its products to a membership warehouse club. Operating results for the fourth quarter were further impacted by credits offered to retailers in connection with a new suggested retail pricing structure and settlement of future royalty obligations that would have been payable to (1) an outside sales and marketing consultant and (2) infomercial talent. The Company expects the aggregate after tax expense associated with the above charges will approximate \$3.2 million, or \$.14 per common share.

"We are clearly disappointed by the results of our fourth quarter in which sales were affected more than originally anticipated by the factors discussed above," stated Barney Adams, Chairman, CEO and President of Adams Golf. "Effective immediately, we are implementing a new pricing structure. In conjunction with the new pricing, retailers will be eligible to receive credit on unsold Adams inventories at the time of the price change, which may be applied to future orders of existing products."

Mr. Adams further stated, "We believe the strategic steps taken the last quarter of 1998, combined with scheduled new product introductions in 1999, improves our competitive posture and will benefit our shareholders going forward. Furthermore, our balance sheet remains strong with approximately \$58 million in cash, cash equivalents and marketable securities with virtually no debt as of December 31, 1998."

Adams Golf designs, manufactures and markets premium quality, technologically innovative golf clubs including the Tight Lies® fairway woods. Further information on the Company can be found on its Internet site, www.adamsgolf.com.

This release, other than historical information, includes forward-looking statements with respect to industry trends and certain other matters. These statements are made under the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 and involve risks and uncertainties which could cause actual results to differ materially from those in the forward-looking statements, including but not limited to the following: product development; product introductions; market demand and acceptance of products; the impact of changing economic conditions;

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ADAMS Golf Center

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business conditions in the golf industry; reliance on third parties including suppliers; the impact of market peers and their products; the actions of competitors, including pricing; risks concerning future technology; and one time events and other factors detailed in the Company's prospectus, and other Securities and Exchange Commission filings. These filings can be obtained by contacting Adams Golf Investor Relations.

[← BACK](#)

To view Adams financial news releases, [click here](#)

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From the desk of
B.H. (Barney) Adams

Memo

To: Paul Brown, Roland Casati, Finis Conner, Mark Mulvoy, Dick Murtland,
Steve Patchin, John Simpson

Date: October 13, 1998

Re: 4TH QUARTER

The 3rd quarter numbers came out on the high side, the Q4 forecast is awful. I've spent countless hours with sales and (subsequently) finance, and I agree with them that it's better to have a poor forecast we think we can make (and beat) than to put out better sounding numbers and not make them.

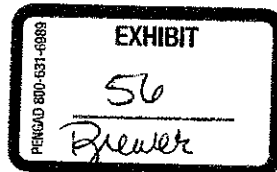
Why is Q4 so weak? Terrible golf market, Costco, and to a lesser degree, competition. (We planned for the competition; Costco and the terrible market were more of a surprise.) I say more of a surprise because about 90 days ago we decided to install an aggressive program in case Q4 turned sour.

- A. Our Thank You America, buy two Tight Lies®, get a free stand bag.
- B. A completely new marketing plan, new infomercial, TV ads, print ads.
- C. One on one visits with major customers to optimize A and B above.

There is another reason for Q4 problems. As I've written earlier, after the road show I immersed myself in the sales department. Suffice to say that Chip Brewer inherited situations of a deep and serious nature. We're still affecting solutions and will be doing so through Q4 '98. This is about facts, and if changes hadn't been made Adams Golf would have suffered irreparable damage.

I've written before about '99. A major part of our forecast is the new driver (\$35M). We will have a technically superior product, great looking, great player results and it's a very complex story to tell. We know the issues, we discuss in detail, employ consultants. Notwithstanding anything we try, the fact is our '99 forecast depends on a successful new production introduction in what now is a very down market.

On the other hand, the market is definitely looking for something new and we'll be there. Callaway is at its weakest in the last 5+ years and there is a tremendous opportunity. We feel very good about our future, but we'll never have the luxury of advance orders that meet our forecast.



ADAMS036843

BHA:afn

ADAMS036844

A. 58

1 of 1 DOCUMENT

Copyright 1998 PR Newswire Association, Inc.
PR Newswire

October 1, 1998, Thursday

SECTION: Financial News

DISTRIBUTION: TO BUSINESS EDITOR

LENGTH: 404 words

HEADLINE: Adams Golf Plans to Repurchase Up to 2 Million Shares of the Company's Common StockLEXIS-NEXIS Related Topicsno targeted Topics.

DATELINE: PLANO, Texas, Oct. 1

BODY:

Adams Golf (Nasdaq: ADGO) announced today that its Board of Directors has authorized the repurchase of up to two million shares of the Company's Common Stock. A purchase of the total number of shares authorized would equal approximately 8.6% of the 23,136,782 shares outstanding.

Adams Golf will repurchase its Common Stock using periodic open market purchases and by block purchases at prevailing prices and based on market conditions. The Company intends to use surplus cash to fund the repurchase program and expects the program to begin immediately.

Barney Adams, Chairman, CEO and President of Adams Golf stated, "We believe our shares are significantly undervalued at this time and believe the share repurchase program communicates our confidence in the future of Adams Golf as a leader in the golf equipment industry. Given our Company's strong cash and financial position, the Board determined that purchasing our own stock represents an excellent investment for the Company and is in the best interest of our shareholders."

Adams Golf designs, manufactures and markets premium quality, technologically innovative golf clubs including the Tight Lies(R) fairway woods. Further information on the Company can be found on its Internet site, www.adamsgolf.com.

This release, other than historical information, includes forward-looking statements with respect to industry trends and certain other matters. These statements are made under the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 and involve risks and uncertainties which could cause actual results to differ materially from those in the forward-looking statements, including but not limited to the following: product development; product introductions; market demand and acceptance of products; the impact of changing economic conditions; business conditions in the golf industry; reliance on third parties including suppliers; the impact of market peers and their products; the actions of competitors, including pricing; risks concerning future technology; and one time events and other factors detailed in the Company's prospectus, and other Securities and Exchange Commission filings. These filings can be obtained by contacting Adams Golf Investor Relations.

SOURCE: Adams Golf

CONTACT: Patty Walsh, Director, Investor Relations of Adams Golf, 972-673-9850

LOAD-DATE: October 2, 1998

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10/19/98
Board Meeting Notes

Patchin, Casati, Murtland, Simpson, ~~to~~ Brewer
Conner, Brown, Mulvey

Costco - why problem? Demand issue

1. Team of diverters, will not disclose sources
no legal redress to identify

Have strong indications - 50 clubs, 30 clubs

Think it's series of small buyers may be one
of our largest customers

\$149 Letter from Edwin Watts - removes
retailer's margin or holding margin consumer
pays more.

What % of sales? Don't know - subjective on
magnitude

Callaway & Orlimas - w/ Callaway greater margin
on Adams (\$249 Steelhead, Orlimas \$209)
30-35% margin \$130-\$135 after full rebate
w/ \$150 pts. 50 pts.
Orlimas in Costco for \$199

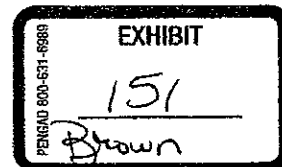
Mag of shortfall in Q4 - probably 50% purely
subjective

22 mm sales

revised to 18-19 mm w/ 12¢ per share

ADAMS 002238

Want numbers given prior to ^{during} roadshow - Pat thinks
they went out. May have had @ last board mtg.



<u>LB</u>	<u>FBW</u>	previous
21.993	20.7	Q4 estimates
19¢	14¢	

Q3 report

Reduction in sales 43.1.

Selling & Royalty exp. +9.1.

costs

Q4/pup

new IT infrastructure

creative/prod. driver info.

Bag promotion

Variables

Royalties

Bonuses & commissions

Incentive - mngs. level on up - discretionary, ^{based on} #s

Travel expense - mktg, int'l.

~~For~~

^{Costs} Budget seems very conservative - per P&L this budget will take a lot of work even @ this level.

Actions will have to be taken publicly to explain losses.

Budget does not reflect adjustments or conscious action to make up for decrease in sales

1999 - prof'l. svcs under \$1MM but \$600K for Q4 98? Significant IT expenses. Midwest Consultants - kind. employment

ADAMS 002239

18.1. add on for benefits.

Cosati - @ board mtg wants details

Is Q4 budget fixed? - Everyone in a key position

Selling: Royalty up 9.1 on 43.1. decrease
in sales

Increase in int'l. sales costs add'l. 5.1. ^{to} Faldo

Morale is an issue

Are incentives paid if loss of 2¢/share? No. exch
maybe at lowest level where \$ are ~~not~~ very
low.

Costed 20.1.

Where is 80.1?

Poor market conditions (same for competi-
tion)
Orlman not as much

Callaway will show

Sales @ end of Q3 overloaded distributors
How much in sales @ 180-day terms? ^{about} 5 per 100

Will it continue? If Callaway continues

How are you

Chip working on letter to customers

Orlimas still on upswing?

Retailers say, in 6-9 mos. they think Orlimas will crash big time.

Returns are high, pricing policy is catching up; Costco is hurting them.

Predict by mid- to end 1999 Orlimas will be non-issue. Did better job for about 90 days.

Callaway - think there are problems

10/8 memo - revenue 20-25% due to Costco
Were you aware of Costco problem when stock buy back was decided?

Wants board to meet when serious issues such as Costco come up

Finnis - thinks we should not buy back until street has info.

Paul - what did ^{should it go} he say? If we had knowledge that would go up,

4/29 - LB Q4 decreased from 23¢ to 13¢

\$13mm will be a disaster

message on
Conf. call Friday - market ^{is very} soft; Costco makes it more difficult.

pg. 27 Ref. 8/28 LB analysts report outlining Costco issue

ADAMS 002241

Q3 were in selected Costcos

Q4 increased dramatically
(Find out how many Costcos)

Heard July/Aug - Pacific Northwest
did not know it was material

Pong promotion ^{also} counteracts Costco

On last few weeks - were in many stores

19c results - what will you say?

Q3 came out on very high end of adjusted expectations

Is there any way to show even 1c profit?
increase sales, decrease expenses
Rework #'s

Paul - Q4 budget - costs don't run w/ expected level of sales

All analyst reports should go to Board

Increasing D&O insurance - \$75mm currently
Met w/ carriers on Friday, ~~will have~~ waiting for quotes on
\$15, 20, 30, 40mm.

ADAMS 002242

① Bullish ② strong adv. program on TL

③ new drives (most technically superior but tough story to sell)

Non conversation?

Continuing to invest in R&D; ^{were on track to intro. in early 1999}
When ready?

Teaser campaign in January

Clear act. of dist. channel

has created gray mkt. On track to resolving

&
will take thru end of year.

Make sure get heard prior to

Nick's name on new drives? & will partic.
in advertising

10/27 Tues - dinner

10/28 Wed. meeting

New adv. - can Board see Wed.?

Dinner mty in closed room?

How is Bush progressing w/ R&D? Very hands on
currently. Will he move to TX? Probably not.

\$350 - \$400:

Preview program ^{that's} about margin + working w/
retailer

Darl - fax conf. call # for Friday

ADAMS 002243

A. 60

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NEWS RELEASE

For more information, please contact:

Patty Walsh
Director, Investor Relations
(972) 673-9850

FOR IMMEDIATE RELEASE

ADAMS GOLF REPORTS THIRD QUARTER OPERATING RESULTS

PLANO, TEXAS, October 22, 1998. Adams Golf (NASDAQ:ADGO) today announced operating results for the third quarter ended September 30, 1998. Net sales increased 61.5 percent to \$22,986,702 as compared to net sales of \$14,236,078 during the third quarter of 1997. Net income increased to \$4,346,389 for the three months ended September 30, 1998 from \$3,143,967 for the comparable period in 1997. Net income per common share decreased to \$0.19 for the three months ended September 30, 1998 from \$0.26 per share for the comparable period of 1997 based on weighted average diluted common shares outstanding of 22,748,523 and 12,156,878, respectively.

For the nine months ended September 30, 1998, net sales were \$81,314,895, an increase of 313 percent from \$19,684,813 for the comparable period in 1997. Net income for the nine months ended September 30, 1998 was \$16,645,897 versus \$3,184,807 for the first nine months of 1997. Net income per common share increased to \$0.83 for the nine months ended September 30, 1998 from \$0.27 per share for the comparable period of 1997 based on weighted average diluted common shares outstanding of 20,011,800 and 11,968,472, respectively.

"We are pleased with our third quarter results, especially considering the increasing competition in the fairway woods category and the general softening we have seen in the golf equipment market," stated Barney Adams, Chairman, CEO and President of Adams Golf.

Commenting on the Company's outlook for the fourth quarter, Mr. Adams stated, "At this time, we expect our fourth quarter sales will be affected by continuing weakness in the golf equipment market. In addition, we anticipate our sales will be further impacted by the recent gray market distribution of our products to a membership warehouse club. While we are working diligently to identify and stop the unauthorized distribution of our products to this retailer, we anticipate this process will take at least through the end of the year. As a result of these market conditions, we anticipate that our net income for the fourth quarter will be at or slightly above a break even level. We remain optimistic, however, about our ability to increase our sales and earnings in 1999 through the introduction of new products and the continued expansion of our marketing efforts both domestically and internationally."

UND 08818

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Further Mr. Adams stated, "In response to current market conditions, we have recently rolled out a new marketing campaign offering a high quality golf bag free to consumers who purchase any two Tight Lies® fairway woods. Based on preliminary reaction from our retailers, we believe this promotion will help stimulate sales and reduce the gray market distribution as the free bag is available only to customers who purchase Tight Lies clubs through authorized Adams Golf retailers. In addition, we will begin airing a new Tight Lies infomercial within the next week which focuses on the expanded line of Tight Lies products and highlights the benefits of the Tight Lies fairway wood over clubs currently offered by our competitors. Meanwhile, we are continuing our research and development efforts and the new driver remains on track for introduction in the first quarter of the new year," concluded Barney Adams.

On October 1, 1998, Adams Golf announced that its Board of Directors had authorized the repurchase of up to two million shares of the Company's common stock. With respect to this share repurchase program, Adams Golf has purchased 657,500 shares of the Company's common stock to date.

Adams Golf designs, manufactures and markets premium quality, technologically innovative golf clubs including the Tight Lies fairway woods. Further information on the Company can be found on its Internet site, www.adamsgolf.com.

This release, other than historical information, includes forward-looking statements with respect to industry trends and certain other matters. These statements are made under the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 and involve risks and uncertainties which could cause actual results to differ materially from those in the forward-looking statements, including but not limited to the following: product development; product introductions; market demand and acceptance of products; the impact of changing economic conditions; business conditions in the golf industry; reliance on third parties including suppliers; the impact of market peers and their products; the actions of competitors, including pricing; risks concerning future technology; and one time events and other factors detailed in the Company's prospectus, and other Securities and Exchange Commission filings. These filings can be obtained by contacting Adams Golf Investor Relations.

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Adams Golf, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(in thousands)

	Assets	
	December 31, 1997	September 30, 1998 (unaudited)
Current Assets:		
Cash and cash equivalents	\$ 1,956	29,196
Marketable securities	-	8,120
Trade receivables, net	7,671	12,899
Inventories	4,487	10,879
Deferred income tax assets	390	866
Other current assets	1,446	3,413
Total current assets	15,950	65,373
Property and equipment, net	604	3,524
Marketable securities	-	26,263
Deferred income tax assets	183	-
Professional services agreement	-	9,703
Other assets, net	623	1,800
	<u>\$ 17,360</u>	<u>106,663</u>

Liabilities and Stockholders' Equity

Current liabilities:		
Note payable to stockholder	\$ -	535
Accounts payable	378	438
Income taxes payable	1,021	-
Accrued expenses	7,636	7,000
Total current liabilities	9,035	7,973
Deferred income tax liabilities	-	3,182
Total liabilities	9,035	11,155
Stockholders' equity:		
Common stock	16	23
Additional paid in capital	14,123	85,891
Common stock subscription	-	(22)
Deferred compensation	-	(1,303)
Retained earnings (accumulated deficit)	(5,814)	10,832
Accumulated other comprehensive income	-	87
Total stockholders' equity	8,325	95,508
	<u>\$ 17,360</u>	<u>106,663</u>

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Adams Golf, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(in thousands, except for share and per share data)
(unaudited)

	Three Months Ended September 30.		Nine Months Ended September 30.	
	1997	1998	1997	1998
Net sales	\$ 14,236	22,987	19,685	81,315
Cost of goods sold	3,603	6,001	5,745	19,626
Gross profit	10,633	16,986	13,940	61,689
Operating expenses:				
Selling and royalty expenses	5,568	7,296	7,854	24,683
General and administrative expenses	593	3,011	1,507	10,034
Research and development expenses	260	454	298	1,118
Total operating expenses	6,421	10,761	9,659	35,835
Operating profit	4,212	6,225	4,281	25,854
Other income (expense):				
Interest income	37	666	46	598
Interest expense	(25)	(15)	(48)	(58)
Income before income taxes	4,224	6,876	4,279	26,394
Income tax expense	1,080	2,530	1,094	9,748
Net income	\$ 3,144	4,436	3,185	16,646
Net income per common share:				
Basic	\$ 0.26	0.19	0.27	0.84
Diluted	0.26	0.19	0.27	0.83
Weighted average number of common shares outstanding:				
Basic	12,156,878	22,695,478	11,968,472	19,714,997
Diluted	12,156,878	22,748,523	11,968,472	20,011,800

###

UND 08821

A. 61

1 IN THE UNITED STATES DISTRICT COURT
2 FOR THE DISTRICT OF DELAWARE

3 - - -
4 IN RE: ADAMS GOLF, INC. :
5 SECURITIES LITIGATION :
6

7 X

8 ORAL DEPOSITION

9 OF

10 CHRISTOPHER M. JAMES

11 Friday, August 11, 2006

12 - - -

13 Oral deposition of CHRISTOPHER M.
14 JAMES, held at the offices of AKIN GUMP
15 STRAUSS HAUER & FELD, LLP, 590 Madison Avenue,
16 New York, New York, commencing at 8:30 a.m.,
17 reported by Pamela Harrison, RMR, CRR, CSR and
18 Notary Public.

19 - - -
20
21
22

23 RSA/VERITEXT COURT REPORTING COMPANY
24 1845 Walnut Street, 15th Floor
Philadelphia, PA 19103
(215) 241-1000 (888) 777-6690

CHRISTOPHER M. JAMES

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1 A. Yes. 11:06:41a
 2 Q. Any other indices that you used 11:06:42a
 3 in this case? 11:06:44a
 4 A. Yes. In response to the report 11:06:44a
 5 of Mr. Miller, I believe his rebuttal report, I 11:06:51a
 6 also undertook the analysis utilizing the S&P 11:06:57a
 7 small cap and the S&P small cap together with 11:07:02a
 8 the -- his peer group. 11:07:10a
 9 Q. Am I missing something or is 11:07:19a
 10 this something I haven't seen yet? 11:07:21a
 11 A. I don't know whether it's been 11:07:25a
 12 produced to you, but it was something that I did 11:07:26a
 13 subsequent to my rebuttal report because it was 11:07:29a
 14 in response to Mr. Miller's. 11:07:34a
 15 MR. COLLINS: Okay. 11:07:39a
 16 MS. REED: I haven't seen it. 11:07:40a
 17 BY MR. COLLINS: 11:07:46a
 18 Q. Okay. So that work you did in 11:07:46a
 19 response to Mr. Miller's rebuttal; correct? 11:07:50a
 20 A. That's right. 11:07:54a
 21 Q. Any other work you did in 11:07:54a
 22 response to Mr. Miller's rebuttal? 11:07:57a
 23 A. Yes. When I reviewed his 11:08:01a
 24 rebuttal report, I investigated and prepared 11:08:08a

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1 responses to -- I thought about -- and that's 11:08:19a
 2 what I meant by prepared -- I thought about 11:08:25a
 3 responses to and tried to assess the validity of 11:08:30a
 4 some of the issues that he raised. 11:08:36a
 5 I also undertook an analysis, 11:08:39a
 6 which I believe is in -- which has been marked 11:08:44a
 7 as Exhibit 339 and 340, which addresses an 11:08:47a
 8 issue that Mr. Miller raised in his report 11:08:53a
 9 regarding his contention that the price 11:08:56a
 10 decline principally in late July was 11:09:00a
 11 attributable to issues concerning the gray 11:09:05a
 12 market. 11:09:11a
 13 Q. Anything else? 11:09:13a
 14 A. I think that's -- as I sit here, 11:09:15a
 15 that's a summary of the things that I did. 11:09:19a
 16 Q. Okay. Now, the work that you 11:09:21a
 17 did in response to or in connection with the 11:09:23a
 18 Miller rebuttal report, that work is reflected 11:09:27a
 19 in part by Exhibits 339 and 340, if I heard you 11:09:34a
 20 correctly. 11:09:39a
 21 A. Yes, some of it -- some of the 11:09:39a
 22 analysis that I just referred to is contained in 11:09:42a
 23 339, 340. 11:09:46a
 24 Q. Okay. Any other pieces of paper 11:09:50a

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1 or computer programs or documents of any nature 11:09:54a
 2 reflect any of the work you did in response or 11:10:03a
 3 in connection with the rebuttal report of 11:10:06a
 4 Mr. Miller? 11:10:08a
 5 A. I don't have any other -- I 11:10:15a
 6 don't have any other paper or -- I reviewed the 11:10:22a
 7 output of a market model analysis using the S&P 11:10:29a
 8 small cap and the peer group from the data that 11:10:38a
 9 Mr. Miller provided -- 11:10:44a
 10 Q. Okay. 11:10:46a
 11 A. -- that I reviewed that output 11:10:48a
 12 on a computer screen. I don't believe -- I 11:10:51a
 13 don't think I printed it out. 11:10:54a
 14 Q. Okay. Could you do so for us, 11:10:55a
 15 please. 11:10:57a
 16 A. I believe I can recreate it. 11:11:03a
 17 Q. If you would, please. 11:11:05a
 18 How long would it take you to 11:11:09a
 19 recreate it? 11:11:10a
 20 A. The estimation wouldn't take 11:11:19a
 21 long. 11:11:21a
 22 Q. Could you ask someone to do 11:11:21a
 23 that, say, at the next break or lunch and have 11:11:22a
 24 it sent to us so we can take a look at it before 11:11:25a

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1 you go home? 11:11:29a
 2 A. I'll take it under advisement. 11:11:29a
 3 I would have to ask the attorneys what the 11:11:31a
 4 protocol is, and if those people are available. 11:11:34a
 5 I'll certainly try to look into it. 11:11:38a
 6 Q. Good. Thank you. 11:11:40a
 7 And what is the nature of that 11:11:50a
 8 material that's on the computer that you just 11:11:51a
 9 described? 11:11:55a
 10 A. Just so you are clear, one issue 11:11:55a
 11 that I wanted to address was whether the 11:12:00a
 12 conclusions that I reached with respect to the 11:12:03a
 13 statistical significance of the days that I 11:12:08a
 14 identify, those conclusions would differ if I 11:12:14a
 15 used an S&P small cap as opposed to the NASDAQ, 11:12:20a
 16 or if I used the peer group as opposed to the 11:12:26a
 17 industry index in combination with the NASDAQ or 11:12:30a
 18 S&P small cap. 11:12:35a
 19 Q. Okay. And by the peer group, 11:12:36a
 20 you are referring to what? 11:12:42a
 21 A. Mr. Miller's peer group. 11:12:44a
 22 Q. And what Mr. Miller was using 11:12:49a
 23 was the peer group that appeared in the company 11:12:51a
 24 proxy statement? 11:12:55a

22 (Pages 82 to 85)

CHRISTOPHER M. JAMES

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1 A. I don't believe that -- I would 11:12:56a
 2 have to go back and check whether that peer 11:13:01a
 3 group is the -- whether it's referred -- whether 11:13:05a
 4 those groups of firms are referred to as the 11:13:10a
 5 peer group in the proxy statement. I simply 11:13:13a
 6 don't recall. I utilized the peer group as 11:13:16a
 7 identified in his report, appendix, I believe 11:13:19a
 8 it's -- if you have a copy of his report, I 11:13:22a
 9 could... 11:13:24a
 10 Q. This is the rebuttal report; eh? 11:13:42a
 11 A. Rebuttal Report A? 11:13:46a
 12 MS. REED: Oh, rebuttal report 11:13:47a
 13 question mark. 11:13:49a
 14 THE WITNESS: Oh. 11:13:51a
 15 MS. REED: It's Canadian. 11:13:52a
 16 MR. COLLINS: E-H. 11:13:54a
 17 THE WITNESS: Cast as a rebuttal 11:13:58a
 18 report B? 11:13:59a
 19 (Laughter.) 11:13:59a
 20 MS. REED: Not another one. 11:13:59a
 21 BY MR. COLLINS: 11:14:00a
 22 Q. Is it the rebuttal report? 11:14:00a
 23 A. Yes. 11:14:02a
 24 MR. COLLINS: Has this been 11:14:04a

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1 marked previously, Michelle? 11:14:06a
 2 MS. REED: It will be Exhibit 11:14:07a
 3 335. 11:14:09a
 4 (Whereupon, a document was 11:14:11a
 5 marked, for identification purposes, as 11:14:11a
 6 Exhibit 335.) 11:14:11a
 7 BY MR. COLLINS: 11:14:14a
 8 Q. Take a look at it, please. 11:14:14a
 9 A. The peer group -- the peer group 11:14:51a
 10 that I'm referring to is the peer group that is 11:14:53a
 11 referred to in his report. 11:14:57a
 12 Q. Where, please? 11:15:00a
 13 A. I'm not sure I know of all of 11:15:02a
 14 the references, but there is a reference to it 11:15:04a
 15 on Page 1 of Exhibit B, the last column. 11:15:10a
 16 Q. Okay. And so you ran, I 11:15:19a
 17 presume, Exhibit 339 using the same peer group 11:15:22a
 18 as indicated on Page 1, Exhibit B of the Miller 11:15:25a
 19 rebuttal? 11:15:31a
 20 A. Just so we are clear, yes, when 11:15:33a
 21 you mean run, the blue line is the -- is it 11:15:39a
 22 blue? 11:15:46a
 23 MS. REED: Yes. 11:15:49a
 24 THE WITNESS: I believe it's 11:15:52a

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1 blue. 11:15:53a
 2 BY MR. COLLINS: 11:15:53a
 3 Q. You're not color-blind, are you? 11:15:53a
 4 A. Yeah, so -- 11:15:55a
 5 Q. How can you be in this business 11:15:57a
 6 and be color-blind? 11:15:58a
 7 A. I'm pretty good at 11:16:00a
 8 distinguishing colors, but -- 11:16:01a
 9 Q. Now, wait, we have a problem 11:16:03a
 10 here, Professor, because I'm color-blind. So 11:16:05a
 11 when you refer to the blue line...? 11:16:09a
 12 A. I believe the blue line is the 11:16:12a
 13 peer group. 11:16:16a
 14 Q. The dark blue line, anyway? 11:16:16a
 15 A. The peer group is the third 11:16:19a
 16 entry -- 11:16:22a
 17 Q. Okay. 11:16:23a
 18 A. -- on the index. All right? 11:16:24a
 19 Q. Okay. Good. 11:16:27a
 20 A. And that corresponds to the -- 11:16:30a
 21 and I'm simply having trouble distinguishing 11:16:35a
 22 what is blue and green here, but the blue line I 11:16:39a
 23 believe is -- tracks the green line with the 11:16:43a
 24 exception of the line below the green line from, 11:16:49a

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1 it looks like, 7/15/1998 to 7/21/1998. 11:16:53a
 2 Does that help? 11:17:04a
 3 Q. It does. Thank you. 11:17:05a
 4 And how did you construct this 11:17:08a
 5 chart? Is this daily closing price? 11:17:09a
 6 A. How this chart was constructed 11:17:17a
 7 is to peg, as it indicates in the note, both the 11:17:20a
 8 S&P small cap, the peer, and the -- and Callaway 11:17:29a
 9 to \$16.00 at 7/09/98. And then once pegged in 11:17:37a
 10 that manner, to compute the changes -- or plot 11:17:44a
 11 the prices based on the returns on Callaway, S&P 11:17:50a
 12 small cap, peer group, and then the red line is 11:17:55a
 13 Adams Golf. 11:18:03a
 14 Q. Now, did you undertake any 11:18:14a
 15 analysis as to what caused the decline in 11:18:16a
 16 Callaway, peer group, and S&P on or about July 11:18:24a
 17 23rd? 11:18:38a
 18 A. I don't believe the S&P is -- 11:18:49a
 19 Q. The S&P didn't decline. 11:18:56a
 20 A. If it did decline, it declined a 11:18:59a
 21 very small amount. 11:19:03a
 22 Q. So the S&P declined a very small 11:19:03a
 23 amount or didn't decline on or about July 23? 11:19:07a
 24 A. Right. 11:19:10a

23 (Pages 86 to 89)

CHRISTOPHER M. JAMES

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1 Q. Adams declined some, and the S&P 11:19:10a
 2 small cap and Callaway declined more -- is that 11:19:14a
 3 right so far? -- on or about July 23rd. 11:19:20a
 4 A. If you said Callaway and the 11:19:23a
 5 peer group? 11:19:26a
 6 Q. Yes. 11:19:27a
 7 A. I think you may have said -- 11:19:27a
 8 Q. You know what, let me start 11:19:29a
 9 again. You are quite right. 11:19:30a
 10 Am I reading this correctly 11:19:31a
 11 that on July 23rd both Callaway and the peer 11:19:33a
 12 group went down sharply and roughly in tandem? 11:19:36a
 13 A. Yes. I think if you go to the 11:19:42a
 14 next exhibit, it might be easier. 11:19:45a
 15 Q. Okay. 11:19:49a
 16 A. 340. 11:19:49a
 17 Q. Okay. 11:19:50a
 18 A. Which has the dates and the 11:19:51a
 19 price decline. So on 7/23/1998, Adams is down 11:19:57a
 20 13 percent -- about roughly 13 percent; Callaway 11:20:05a
 21 is down 33 percent; and Miller's peer group is 11:20:08a
 22 down 28.2 percent. 11:20:12a
 23 Q. I see. 11:20:14a
 24 Now, Miller's peer group, do 11:20:19a

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1 you know whether it included Callaway? 11:20:22a
 2 A. It did. 11:20:23a
 3 Q. And was the peer group -- the 11:20:24a
 4 peer group was comprised of how many companies? 11:20:26a
 5 A. I believe it was -- it consisted 11:20:37a
 6 of Callaway, Teardrop, Aldila -- 11:20:42a
 7 THE COURT REPORTER: Callaway, 11:20:54a
 8 comma Teardrop? 11:20:54a
 9 THE WITNESS: It might help, 11:20:54a
 10 it's on the top line on the first page of 11:20:54a
 11 Mr. Miller's report. 11:21:02a
 12 BY MR. COLLINS: 11:21:04a
 13 Q. Okay. 11:21:04a
 14 A. I can read these off, but it may 11:21:04a
 15 be helpful for the court reporter just to look 11:21:08a
 16 at them. 11:21:10a
 17 It would be Callaway, Teardrop, 11:21:10a
 18 Aldila, Coastcast, Arnold Palmer, and Golden 11:21:14a
 19 Bear. 11:21:18a
 20 Q. Now, as you used the peer group 11:21:27a
 21 on Exhibits 339 and 340, was it a weighted group 11:21:41a
 22 or was it unweighted, based on the size or the 11:21:51a
 23 market caps or some other characteristics of the 11:22:01a
 24 companies making up the peer group? 11:22:06a

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1 A. I used the peer group return as 11:22:08a
 2 reported by Mr. Miller in his rebuttal report. 11:22:13a
 3 My recollection is I could come 11:22:18a
 4 close but not exactly match the peer returns 11:22:21a
 5 by taking the -- the peer group return by 11:22:26a
 6 taking a value weighted average of the 11:22:31a
 7 individuals within the group. 11:22:37a
 8 Q. What do you mean by "value 11:22:39a
 9 weighted average"? 11:22:42a
 10 A. I was responding to the question 11:22:43a
 11 you just asked, was it a value weighted average 11:22:44a
 12 or an equally weighted average of the returns. 11:22:49a
 13 I can come close to, if I use 11:22:54a
 14 value weights, come close to the returns that 11:22:56a
 15 he had. 11:22:57a
 16 Q. That's fine. And I'm just 11:22:58a
 17 asking you what you did in using the value 11:23:00a
 18 weights, what process did you go through and 11:23:01a
 19 what specifically, specifically what value did 11:23:03a
 20 you weight. 11:23:07a
 21 A. The market value of the common 11:23:09a
 22 stock. 11:23:12a
 23 THE WITNESS: And I apologize, 11:23:20a
 24 but I need to take a short break. 11:23:20a

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1 MR. COLLINS: Off the record. 11:23:24a
 2 (A recess was had from 11:33:46a
 3 11:23 a.m. to 11:33 a.m.; and then the 11:33:46a
 4 proceedings continued as follows:) 11:33:46a
 5 BY MR. COLLINS: 11:33:46a
 6 Q. Exhibit 339. 11:33:46a
 7 A. Okay. 11:33:48a
 8 Q. Why did you do this just for the 11:33:49a
 9 month of July? 11:33:56a
 10 A. Because Mr. Miller indicated in 11:33:59a
 11 his rebuttal report that it is his conjecture 11:34:05a
 12 that the price decline, particularly in the 11:34:11a
 13 latter part of July, was attributable to, I 11:34:15a
 14 think he refers to it as leakage regarding gray 11:34:20a
 15 market activities. 11:34:26a
 16 Q. Is there something about Exhibit 11:34:27a
 17 339 or Exhibit 340 that leads you to question 11:34:28a
 18 that conclusion on his part? 11:34:33a
 19 A. I think that -- yes, I think 11:34:35a
 20 that this analysis demonstrates, using his data, 11:34:41a
 21 that the decline in Adams Golf during this 11:34:43a
 22 period of time was certainly in line with the 11:34:51a
 23 decline experienced by its -- the firms 11:34:55a
 24 identified by Mr. Miller as being peers to Adams 11:35:01a

24 (Pages 90 to 93)

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1 Golf, and that consistent with the discussion in 11:35:07a
 2 my report, the decline appears to be a result 11:35:18a
 3 principally of softness in the golf industry as 11:35:25a
 4 reflected by the earnings miss and discussion of 11:35:29a
 5 difficulties in the market that Callaway 11:35:36a
 6 disclosed, and then the peer group -- I think 11:35:44a
 7 Coastcast has a news article during that same 11:35:48a
 8 period of time indicating same weakness in 11:35:53a
 9 product demand, which I think is consistent with 11:36:00a
 10 the announcement of Callaway, since Coastcast is 11:36:06a
 11 a major supplier to Callaway. 11:36:09a
 12 Q. Did you undertake -- the 11:36:15a
 13 analysis of these various stock prices, did you 11:36:20a
 14 do any work taking it out beyond July 31st? 11:36:25a
 15 A. No. I -- you mean -- 11:36:33a
 16 Q. Did you run the chart beyond 11:36:37a
 17 July 31st? 11:36:39a
 18 A. No, I just focused on the dates 11:36:41a
 19 in -- the dates that he identified as being 11:36:43a
 20 associated with price declines in late July that 11:36:53a
 21 he contends may be associated with information 11:36:59a
 22 disclosures regarding -- or leakage of 11:37:03a
 23 information regarding, say, purchase orders by 11:37:07a
 24 Costco. 11:37:10a

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1 Q. And in that regard you are 11:37:16a
 2 referring to the information he has -- perhaps 11:37:17a
 3 other places as well, but you are referring to 11:37:21a
 4 the information he has in Paragraph 22(A) of his 11:37:23a
 5 rebuttal report? 11:37:26a
 6 A. 22(A), yes. 11:37:28a
 7 Q. Now, how long ago did you 11:37:39a
 8 prepare exhibits or did you create the documents 11:37:41a
 9 that are now 339 and 340? 11:37:43a
 10 A. Within the last week. 11:37:49a
 11 Q. Did counsel ask you to do so? 11:37:55a
 12 A. No. 11:37:58a
 13 Q. Did you tell counsel you were 11:37:58a
 14 doing this? 11:38:00a
 15 A. Yes. 11:38:00a
 16 Q. Did you run any other charts 11:38:10a
 17 beyond 339 either within the last week or since 11:38:13a
 18 the rebuttal report? 11:38:18a
 19 A. I don't believe so. I don't 11:38:24a
 20 recall doing any. 11:38:26a
 21 Q. And did you undertake an 11:38:28a
 22 analysis of peer performance with respect to 11:38:30a
 23 August or September? 11:38:35a
 24 A. No, my focus was only on late -- 11:38:39a

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1 late July, is the period that he focuses in on 11:38:45a
 2 his report. 11:38:49a
 3 Just to add that he -- and the 11:38:51a
 4 other reason is that he has a chart, I believe 11:38:55a
 5 it's -- if you don't mind, I'll take it off. 11:39:00a
 6 (The witness takes the clip off 11:39:08a
 7 the document.) 11:39:10a
 8 BY MR. COLLINS: 11:39:10a
 9 Q. Please. 11:39:10a
 10 A. That is a -- that has a somewhat 11:39:15a
 11 different pegging in the sense that it's pegged 11:39:23a
 12 to 1. It's his Exhibit A. It's entitled ADGO 11:39:28a
 13 versus XLC(4), Adams Golf versus Comparable 11:39:35a
 14 Index. He carries it out to -- 12/23/1999 is 11:39:43a
 15 the last date. 11:39:55a
 16 Q. You are referring to the page 11:39:57a
 17 immediately after the page that says Exhibit A, 11:40:01a
 18 or are you referring to a later? 11:40:07a
 19 Which chart are you referring 11:40:17a
 20 to, please? 11:40:18a
 21 A. I know this is -- it doesn't 11:40:24a
 22 make the record look particularly good because 11:40:26a
 23 I'm holding something up, but it is this chart 11:40:30a
 24 (indicating), and I believe you are looking at 11:40:34a

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1 it. 11:40:36a
 2 MS. FOX: Let me just check 11:40:37a
 3 that. I'll come around and see whether 11:40:39a
 4 it's the same. 11:40:42a
 5 THE WITNESS: Just so you are 11:40:45a
 6 clear, there appears to be two charts 11:40:46a
 7 in his Exhibit A. One is -- it looks 11:40:48a
 8 like they are the same chart. One is 11:41:00a
 9 simply, in my version, a smaller 11:41:03a
 10 version of the other. 11:41:06a
 11 BY MR. COLLINS: 11:41:09a
 12 Q. Okay. Well, the chart -- 11:41:09a
 13 A. This you can identify -- 11:41:23a
 14 Q. Not a problem. 11:41:24a
 15 A. Okay. 11:41:26a
 16 Q. Do you see the page that says on 11:41:26a
 17 it Exhibit A? It's probably in your left hand. 11:41:28a
 18 A. Yeah, the problem I'm having is 11:41:35a
 19 that there are a number of pages that say 11:41:37a
 20 Exhibit A on it. Okay? Maybe we can make this 11:41:40a
 21 easier. 11:41:43a
 22 This is Exhibit A (indicating), 11:41:44a
 23 it only has Exhibit A on it. Then there is a 11:41:46a
 24 page that follows it which is a -- 11:41:50a

25 (Pages 94 to 97)

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1	lot. Let's not argue about this. This is very	11:47:47a	1	Q. I understand that you don't know	11:50:35a
2	simple.	11:47:49a	2	whether 339 and 340 include Arnold Palmer and	11:50:38a
3	Whether it came from James,	11:47:50a	3	Golden Bear. Am I right so far? As you sit	11:50:43a
4	Miller, McEvoy, Fox, Page 339, peer group,	11:47:54a	4	here now, you don't remember whether those two	11:50:46a
5	does it include or does it exclude Arnold	11:48:00a	5	companies are included in peer group?	11:50:48a
6	Palmer and Golden Bear?	11:48:03a	6	A. Right.	11:50:50a
7	A. And the answer to that question	11:48:06a	7	Q. But I thought I also heard you	11:50:51a
8	is I was unable to replicate exactly the returns	11:48:08a	8	say that peer group, as used in 339 and 340,	11:50:54a
9	on his peer group by taking a value weighted	11:48:11a	9	consist of whatever it is that Miller referred	11:50:59a
10	average of the returns of the companies that he	11:48:15a	10	to as peer group at some point in his report.	11:51:01a
11	reports as part of the peer. As a result, and	11:48:18a	11	A. No, I think that's -- I	11:51:04a
12	to be able to use his own data, I did not	11:48:22a	12	understand your confusion now.	11:51:06a
13	construct a peer group for purposes of preparing	11:48:27a	13	My recollection is that I used	11:51:08a
14	339, 340. The best recollection -- my best	11:48:31a	14	the return for the peer group as reported in	11:51:13a
15	recollection is the peer group returns are as	11:48:36a	15	Mr. Miller.	11:51:17a
16	reported in Mr. Miller's report. Okay?	11:48:39a	16	Q. Fine.	11:51:18a
17	Q. Okay.	11:48:43a	17	A. In other words, he has a column	11:51:19a
18	A. So if he included or excluded	11:48:43a	18	in his report that has the returns for the peer	11:51:23a
19	Palmer and Golden Bear, then they would be	11:48:49a	19	group. Okay? However he calculated them. And	11:51:26a
20	included or excluded in the peer group return as	11:48:54a	20	my recollection is that's what I utilized.	11:51:32a
21	reported in 340 and 339, as best -- is my best	11:48:58a	21	Q. Okay. Can you show me that	11:51:34a
22	recollection.	11:49:04a	22	column you are referring to?	11:51:36a
23	Q. Okay. Now, before the break I	11:49:04a	23	A. Yes. It's in his Exhibit --	11:51:39a
24	had asked you, if you would, to get delivered to	11:49:06a	24	MS. REED: "A."	11:51:44a
Page 103			Page 105		
1	us during the course of the deposition the	11:49:09a	1	THE WITNESS: "A."	11:51:45a
2	material that's on your computer. Can I ask,	11:49:15a	2	BY MR. COLLINS:	11:51:47a
3	has that been accomplished?	11:49:18a	3	Q. Right.	11:51:47a
4	A. It has not been accomplished as	11:49:19a	4	A. Actually, Exhibit B --	11:51:51a
5	of this point in time.	11:49:21a	5	Q. Right.	11:51:58a
6	Q. Okay. I presume you've	11:49:22a	6	A. -- you see peer group?	11:52:00a
7	consulted with counsel and you will be good	11:49:26a	7	Q. I do.	11:52:04a
8	enough to supply that. Correct?	11:49:29a	8	A. My recollection is that's what I	11:52:05a
9	A. I will endeavor to try to supply	11:49:32a	9	utilized.	11:52:08a
10	that.	11:49:34a	10	Q. Okay. Okay. Good.	11:52:09a
11	Q. Okay. Thank you.	11:49:35a	11	Now, I think you said that	11:52:42a
12	In time for us to talk about it	11:49:38a	12	following the receipt of Mr. Miller's rebuttal	11:52:45a
13	today; correct, sir?	11:49:39a	13	report, you used the S&P small cap together	11:52:47a
14	A. Again, I will try to do that. I	11:49:44a	14	with Miller's peer group and examined whether	11:52:54a
15	-- first of all, I don't have my computer with	11:49:50a	15	your conclusions regarding statistical	11:53:01a
16	me; and second, the person then whom I would	11:49:52a	16	significance with respect to particular days	11:53:03a
17	call to obtain the data on which I did the	11:49:58a	17	was changed if those were the indices you used	11:53:08a
18	analysis is currently not available. So I am	11:50:04a	18	as opposed to the indices that you had used	11:53:12a
19	endeavoring to undertake that.	11:50:08a	19	previously. Correct so far?	11:53:15a
20	Q. Thank you.	11:50:11a	20	A. Yes.	11:53:17a
21	Well, I'll tell you what I'm	11:50:31a	21	Q. And when you did so, what did	11:53:20a
22	confused about because it's a pretty simple	11:50:32a	22	you find?	11:53:23a
23	matter.	11:50:34a	23	A. My recollection is that the	11:53:24a
24	A. Okay.	11:50:35a	24	conclusions regarding days of statistical	11:53:29a

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1 significance would be unaffected by utilizing 11:53:32a
 2 the S&P small cap and the Miller peer group as 11:53:38a
 3 part of a market model. 11:53:50a
 4 Q. With regard to NASDAQ, for 11:54:04a
 5 example, the 17 percent was the explanatory 11:54:05a
 6 power of NASDAQ? Is that what the 17 percent 11:54:08a
 7 was, with regard to daily returns? 11:54:14a
 8 A. The daily -- the amount of the 11:54:17a
 9 daily variability explainable by changes in the 11:54:19a
 10 NASDAQ was I believe 17 or 18 percent. 11:54:23a
 11 Q. Sure. Well, whatever, but can 11:54:27a
 12 we call that the -- how do you refer to that in 11:54:29a
 13 shorthand? Explanatory power? 11:54:34a
 14 A. Let's use what -- the precise 11:54:38a
 15 terms, the R-squared. 11:54:40a
 16 Q. Okay. Good. 11:54:42a
 17 A. Adjusted R-squareds were, I 11:54:43a
 18 believe, 17 or 18 percent. 11:54:48a
 19 Q. Perfect. 11:54:50a
 20 What were the adjusted 11:54:50a
 21 R-squareds of the S&P small cap? 11:54:52a
 22 A. What I recall is the S&P small 11:54:56a
 23 cap and the industry peers, the explanatory 11:54:57a
 24 power was virtually identical to the explanatory 11:55:05a

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1 power of the -- or the R-squareds of the model 11:55:08a
 2 that I used. 11:55:13a
 3 Sorry. The R-squareds were 11:55:14a
 4 virtually the same. 11:55:25a
 5 Q. Now, you just changed terms on 11:55:27a
 6 me and I was so careful to get them down so we 11:55:30a
 7 were talking about the same thing. 11:55:32a
 8 Do I understand that the 11:55:33a
 9 adjusted R-squareds are virtually the same 11:55:34a
 10 whether you use your NASDAQ index or whether 11:55:47a
 11 you use the S&P index or whether you use the 11:55:51a
 12 Miller peer index? 11:55:56a
 13 A. The R-squareds are -- if I 11:55:59a
 14 replicate the regressions that I discuss in my 11:56:06a
 15 report -- remember, I discuss a single-factor 11:56:13a
 16 and a two-factor model. If I replicate the 11:56:18a
 17 single- and two-factor models, utilizing, 11:56:25a
 18 instead of the NASDAQ and the Bloomberg modified 11:56:30a
 19 index, the S&P small cap and the peer group as 11:56:35a
 20 identified by Mr. Miller, the R-squareds are 11:56:43a
 21 virtually the same. 11:56:48a
 22 Q. Perfect. 11:56:49a
 23 Does it matter whether we talk 11:56:52a
 24 about R-squareds or adjusted R-squareds? 11:56:54a

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1 A. For these purposes -- the 11:56:58a
 2 purposes of these proceedings, I don't think it 11:57:01a
 3 will make a difference. 11:57:03a
 4 Q. Okay. Good. 11:57:03a
 5 You ran -- 11:57:10a
 6 A. Just so you know, an R-squared 11:57:10a
 7 will always increase as you add explanatory 11:57:15a
 8 variables. An adjusted R-squared is an 11:57:21a
 9 R-squared that is adjusted for the number of 11:57:26a
 10 explanatory variables and it will not always 11:57:29a
 11 increase, so it's -- it utilizes a measure of 11:57:32a
 12 the additional explanatory power, if you will, 11:57:38a
 13 of adding explanatory variables. 11:57:41a
 14 Q. The adjusted R-squared of NASDAQ 11:57:59a
 15 combined with the golf index you used was 11:58:09a
 16 approximately equal to the adjusted R-squared of 11:58:16a
 17 using small cap plus Miller's peer group; 11:58:19a
 18 correct? 11:58:25a
 19 A. Could she read it back to me, 11:58:28a
 20 please -- 11:58:30a
 21 Q. You know what, I just want to 11:58:31a
 22 get over it, so let me just ask it again. 11:58:33a
 23 You compared the adjusted 11:58:35a
 24 R-squareds of NASDAQ plus golf to the adjusted 11:58:37a

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1 R-squareds of Miller peer plus S&P small cap; 11:58:45a
 2 correct? 11:58:51a
 3 A. Yes. 11:58:51a
 4 Q. Okay. Did you compare the 11:58:52a
 5 adjusted R-squareds of NASDAQ to Miller peer 11:58:54a
 6 group? 11:59:03a
 7 A. I don't recall. 11:59:05a
 8 Q. Did you compare the adjusted 11:59:07a
 9 R-squareds of NASDAQ to S&P small cap? 11:59:10a
 10 A. I believe I did. 11:59:21a
 11 Q. What did you find when you did 11:59:23a
 12 that? 11:59:25a
 13 A. My recollection is that they 11:59:25a
 14 were virtually identical. 11:59:26a
 15 Q. Did you compare the adjusted 11:59:32a
 16 R-squared of your modified Bloomberg golf index 11:59:43a
 17 to the adjusted R-squared of Miller's peer 11:59:50a
 18 group? 11:59:54a
 19 A. I don't recall -- I don't 11:59:59a
 20 believe I did. I just did -- just -- I did 12:00:00p
 21 exactly what I indicated in the answer a couple 12:00:05p
 22 of questions ago, which is, the analyses that I 12:00:09p
 23 report in my report of NASDAQ and NASDAQ plus 12:00:17p
 24 industry, the one- and two-factor models which I 12:00:26p

28 (Pages 106 to 109)

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1 stock returns. 12:06:49p
 2 Q. Now, you used an event window or 12:06:50p
 3 event windows in this work; correct? 12:06:53p
 4 A. Yes. 12:06:59p
 5 Q. And the event window you used, 12:07:00p
 6 for all aspects of your work here, was one day? 12:07:01p
 7 A. No. 12:07:08p
 8 Q. Okay. You used, at least in 12:07:09p
 9 some parts of your work, a one-day event window; 12:07:14p
 10 is that -- 12:07:18p
 11 A. That is correct. 12:07:18p
 12 Q. Okay. In what part of your work 12:07:19p
 13 did you use a one-day event window? 12:07:24p
 14 A. As is indicated in my report, 12:07:26p
 15 when I was able to identify when a piece of 12:07:36p
 16 information was either published or became 12:07:42p
 17 available to market participants, I utilized -- 12:07:46p
 18 I used the day on which that information was 12:07:53p
 19 first available during trading hours. 12:07:55p
 20 Q. Okay. 12:07:58p
 21 A. Now, on -- the one I remember in 12:07:59p
 22 particular was the April -- I'm sorry, the April 12:08:07p
 23 -- the August 28th Lehman Brothers report. It 12:08:09p
 24 has a date on it, but not a time stamp, so then 12:08:15p

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1 the question becomes is it a -- was it available 12:08:19p
 2 to market participants during trading hours. 12:08:26p
 3 And, as I indicate in my report, I look at both 12:08:33p
 4 the 28th and the 31st and see whether either one 12:08:37p
 5 of those days is statistically significant. 12:08:41p
 6 Now -- 12:08:43p
 7 Q. Can I stop you? Forgive me. 12:08:46p
 8 With regard to that, when you 12:08:48p
 9 did that work regarding the Lehman report and 12:08:49p
 10 you looked at the 28th and you looked at the 12:08:52p
 11 31st, you looked at each on a one-day event 12:08:54p
 12 window basis; correct? 12:08:57p
 13 A. And I also calculated the 12:08:59p
 14 statistical significance on a two-day basis. 12:09:04p
 15 Q. Okay. With respect to Lehman, 12:09:07p
 16 that Lehman August 28th report? 12:09:12p
 17 A. Yes. 12:09:14p
 18 Q. All right. And why with regard 12:09:20p
 19 to the Lehman report did you use a two-day event 12:09:23p
 20 window? 12:09:26p
 21 A. Well, I think it would be a mis 12:09:28p
 22 -- it would be a mischaracterization to say that 12:09:31p
 23 -- I investigated a two-day event window to 12:09:37p
 24 determine whether the conclusions that I was 12:09:40p

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1 reaching regarding the materiality of that 12:09:41p
 2 information would be changed if I used a broader 12:09:44p
 3 window than one day. 12:09:51p
 4 Q. Okay. How did you investigate? 12:09:56p
 5 A. In the manner that I just 12:09:59p
 6 described, that I looked at each day 12:10:00p
 7 individually in the combination of those two 12:10:02p
 8 days. 12:10:06p
 9 In addition, even though the 12:10:06p
 10 Lehman report has no time stamp on it, I 12:10:10p
 11 believe, both in reading Mr. Lantier's 12:10:14p
 12 deposition, and it's my understanding, having 12:10:18p
 13 worked with buy and sell side analysts, that 12:10:21p
 14 typically the written report will be disclosed 12:10:25p
 15 to market participants and the content would 12:10:33p
 16 be disclosed to the market participants in the 12:10:36p
 17 day -- on the day on which the report is 12:10:39p
 18 dated, during trading hours, or before the 12:10:42p
 19 start of trading on the day that it is dated. 12:10:51p
 20 Consistent with that, I also 12:10:51p
 21 looked at what the closing price was referred 12:10:52p
 22 to in the August 28th report for Adams Golf to 12:10:55p
 23 determine whether the closing price pertained 12:11:01p
 24 to the 28th or the day before, and it 12:11:04p

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1 pertained to the day before, which is 12:11:10p
 2 consistent with the report being published on 12:11:13p
 3 the 28th. 12:11:16p
 4 Q. I asked you a question a moment 12:11:19p
 5 ago about what you did to investigate a two-day 12:11:22p
 6 event window and you said you already answered 12:11:26p
 7 that. 12:11:28p
 8 A. Yes. 12:11:29p
 9 Q. Tell me, again, what you did to 12:11:29p
 10 investigate a two-day event window consisting of 12:11:32p
 11 the 28th and the 31st. Did you run regressions 12:11:37p
 12 on it? 12:11:41p
 13 A. I aggregated the abnormal 12:11:44p
 14 returns or the residual returns. 12:11:46p
 15 Q. Okay. 12:11:49p
 16 A. And then used -- and then tested 12:11:51p
 17 whether they were significant based upon a 12:11:53p
 18 standard error that was estimated to be 12:11:57p
 19 consistent with a two-day return. So this -- I 12:12:01p
 20 have used and others use in published work an 12:12:07p
 21 estimate of the two-day standard error is simply 12:12:12p
 22 the square root of two times the daily standard 12:12:16p
 23 error. 12:12:19p
 24 Q. When you did so, what did you 12:12:27p

30 (Pages 114 to 117)

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1 come up with; a lack of statistical significance 12:12:29p
 2 on the two-day basis? 12:12:32p
 3 A. Yes. 12:12:33p
 4 Q. That work with regard to the 12:12:34p
 5 two-day event window analysis or investigation, 12:12:37p
 6 does that appear somewhere in your report or 12:12:42p
 7 your rebuttal report, with respect to the Lehman 12:12:44p
 8 August 28th report? 12:12:46p
 9 A. I don't -- as I sit here, I 12:12:57p
 10 don't recall. I believe in the report I discuss 12:13:00p
 11 both the return on the 28th and the 31st. 12:13:04p
 12 Q. Can you retrieve, please, the 12:13:20p
 13 investigation you did of the two-day event 12:13:23p
 14 window with respect to the Lehman August 28 12:13:26p
 15 report? 12:13:31p
 16 A. I don't know whether I still 12:13:41p
 17 have it. I think that you could get very close 12:13:42p
 18 to that result by -- actually, by going to my 12:13:50p
 19 report. 12:14:03p
 20 I believe on Paragraph 59, as I 12:14:28p
 21 outline, the residual return was less than one 12:14:43p
 22 percent on the 28th and the residual return on 12:14:53p
 23 the 31st was minus 5.2, so the cumulative 12:14:59p
 24 residual would be somewhere around 6.2. The 12:15:05p

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1 one-day -- so that -- that's -- that would be 12:15:12p
 2 the two-day abnormal return, would be 6.2 12:15:18p
 3 percent. 12:15:22p
 4 Since neither return is 12:15:23p
 5 statistically significant on a one-day basis, 12:15:25p
 6 combining the two, given that the standard 12:15:29p
 7 error for a two-day return is bigger than the 12:15:31p
 8 one-day return, is not going to result in the 12:15:37p
 9 6.2 percent return or something less than 6.2 12:15:39p
 10 percent return to be statistically 12:15:47p
 11 significant. 12:15:49p
 12 Q. Okay. Tell me about the 12:15:50p
 13 standard error with regard to how the standard 12:15:51p
 14 error changes depending upon the event -- the 12:15:54p
 15 length of the event window. Would you describe 12:15:57p
 16 to me how that works. 12:16:01p
 17 A. Generally the longer the event 12:16:03p
 18 window, the larger the standard error because 12:16:06p
 19 the volatility of two-day returns is generally 12:16:18p
 20 higher than one-day returns under the assumption 12:16:25p
 21 of independence in the returns. 12:16:27p
 22 Now, some analysts, when 12:16:30p
 23 looking at two or -- two-day abnormal returns 12:16:32p
 24 or three-day abnormal returns will also 12:16:38p

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1 compute, based on the data, the 12:16:41p
 2 autocorrelation in the return series and try 12:16:44p
 3 to include that in the calculation of the 12:16:47p
 4 standard error. 12:16:50p
 5 Q. What does autocorrelation mean? 12:16:52p
 6 A. It refers to -- if you think 12:16:55p
 7 about correlation as being how two series move 12:16:59p
 8 together, autocorrelation refers to how a series 12:17:06p
 9 is related to the series lagged one day or one 12:17:14p
 10 month. 12:17:20p
 11 Q. What's the effect of 12:17:26p
 12 autocorrelation that some analysts use in this 12:17:28p
 13 context? 12:17:33p
 14 A. It depends on the size of the 12:17:34p
 15 autocorrelation. If the autocorrelation is 12:17:36p
 16 positive, it tends to make the standard error 12:17:40p
 17 somewhat bigger than the standard error that you 12:17:44p
 18 would get, assuming independence. 12:17:47p
 19 Q. And what do you mean by 12:17:51p
 20 "assuming independence"? 12:17:53p
 21 A. Assuming independence means that 12:17:54p
 22 you are assuming that the autocorrelation is 12:17:58p
 23 zero on a one-day lag period. 12:18:01p
 24 Q. Okay. So, now, the regression 12:18:05p

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1 you ran, if any, with regard to the two-day 12:18:08p
 2 period, I hope I have the presence of mind to 12:18:13p
 3 ask you to be good enough to produce that to us 12:18:17p
 4 if you can so retrieve it. 12:18:19p
 5 A. I'll take it under 12:18:23p
 6 consideration. 12:18:24p
 7 Q. I appreciate it. 12:18:24p
 8 Now, other than that, that is, 12:18:27p
 9 other than with respect to the August -- wait 12:18:30p
 10 a minute, one other thing. You mentioned a 12:18:34p
 11 few minutes ago that it's your experience that 12:18:37p
 12 sometimes where there is a written report by 12:18:40p
 13 an analyst -- did I hear you correctly, that 12:18:44p
 14 it's your experience that sometimes the 12:18:48p
 15 contents of that written report are 12:18:50p
 16 disseminated orally prior to the issuance? 12:18:54p
 17 A. In the morning conference call 12:18:58p
 18 on the day that the report is issued. 12:19:00p
 19 Q. Okay. Is it your experience 12:19:03p
 20 that the contents are sometimes disseminated 12:19:05p
 21 prior to that on an oral basis? 12:19:09p
 22 A. I'm not sure what you mean by 12:19:14p
 23 "the contents disseminated." 12:19:19p
 24 Q. An analyst calls up a good 12:19:21p

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1	client and says, "I'm going to issue an analyst	12:19:24p	1	favorable such as "buy" --	12:22:59p
2	report tomorrow that is going to have an impact	12:19:26p	2	Q. "Hot"?	12:23:01p
3	on the stock price. I just wanted you to know	12:19:28p	3	A. Something like that.	12:23:03p
4	what I'm going to say."	12:19:31p	4	-- and "negative," and then	12:23:09p
5	A. That -- I'm not familiar with	12:19:33p	5	try to come up with a quantitative measure of	12:23:09p
6	that practice.	12:19:35p	6	the frequency on a particular day in which	12:23:12p
7	Q. You are familiar with the	12:19:36p	7	those words appear, and then to use that	12:23:14p
8	occurrence that stock prices move sometimes on	12:19:40p	8	quantitative measure to examine whether on	12:23:20p
9	the basis of oral information being disseminated	12:19:45p	9	that day there is a significant stock price	12:23:24p
10	into the marketplace?	12:19:51p	10	movement, and so what the researcher is doing	12:23:29p
11	A. Are you saying --	12:19:55p	11	is setting up a -- an experiment that can be	12:23:34p
12	Q. Rumors move stock prices	12:19:58p	12	replicated by a third party that is testing,	12:23:37p
13	sometimes, don't they?	12:20:00p	13	using objective scientific measures, the	12:23:43p
14	A. If they are material and -- if	12:20:02p	14	significance of a piece of information.	12:23:49p
15	they are material, they certainly can move stock	12:20:13p	15	Q. And you said Journal of Finance	12:23:55p
16	prices, and there are scientific methods for the	12:20:15p	16	five years ago or thereabouts?	12:23:58p
17	determination of whether a specific rumor or	12:20:21p	17	A. Or thereabouts, yes.	12:24:00p
18	conjecture is disseminated to the market.	12:20:31p	18	Q. Who wrote it?	12:24:01p
19	Q. What are those scientific	12:20:36p	19	A. My recollection is a guy -- at	12:24:04p
20	methods?	12:20:37p	20	least one of the authors was at the University	12:24:06p
21	A. Let me give a couple of	12:20:42p	21	of British Columbia. I don't recall, as I sit	12:24:09p
22	examples.	12:20:44p	22	here, who the authors are.	12:24:13p
23	There is academic literature	12:20:45p	23	Q. That article dealt with chat	12:24:14p
24	that looks at the impact of, say, chat room	12:20:50p	24	room --	12:24:16p

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1	information. and that literature asks the	12:21:02p	1	A. Right.	12:24:17p
2	question of whether chat room information is	12:21:10p	2	Q. -- communication.	12:24:18p
3	viewed as material to investors.	12:21:12p	3	Did it deal with oral rumors?	12:24:19p
4	Now, what that literature	12:21:19p	4	A. I don't recall.	12:24:25p
5	recognizes is that a reference in a chat room	12:21:21p	5	Q. Rumor or other forms of oral	12:24:28p
6	to a particular company, whether that is	12:21:25p	6	communication can, if material, affect stock	12:24:34p
7	favorable or unfavorable, is likely to be a	12:21:32p	7	price; correct?	12:24:37p
8	subjective evaluation. So those studies	12:21:39p	8	A. If that information is material	12:24:40p
9	provide objective measures of the extent to	12:21:41p	9	and becomes available to market participants.	12:24:43p
10	which there is discussion within a chat room	12:21:46p	10	Q. And how in that case does one	12:24:46p
11	and objective measures as to whether that --	12:21:51p	11	objectively measure, if at all, as to whether	12:24:48p
12	those discussions are favorable or unfavorable	12:21:54p	12	the information has materially affected the	12:24:53p
13	and then attempts to test whether that	12:21:59p	13	market?	12:24:56p
14	information is viewed by market participants	12:22:04p	14	A. The procedure that I think I've	12:24:57p
15	as being material.	12:22:07p	15	used and would use is to first provide	12:25:01p
16	Q. What are these objective	12:22:11p	16	information -- to ascertain whether the	12:25:05p
17	measures determining whether the information is	12:22:18p	17	information that is characterized as -- you are	12:25:09p
18	favorable or unfavorable?	12:22:20p	18	characterizing as rumor or opinion is publicly	12:25:15p
19	A. The -- and I'm going by	12:22:26p	19	available. So there is a news report, an	12:25:21p
20	recollection, this is an article published in	12:22:27p	20	analyst report, a company disclosure, a	12:25:27p
21	the Journal of Finance maybe five years ago --	12:22:29p	21	disclosure, say, of a government regulatory	12:25:33p
22	the researchers set up a text-based search of	12:22:36p	22	agency, some objective way of determining	12:25:37p
23	chat room information and identify certain words	12:22:42p	23	whether the information is publicly available.	12:25:39p
24	that would be considered to be unambiguous with	12:22:50p	24	And then the second step would	12:25:45p

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1 be, in terms of identifying the materiality of 12:25:46p
 2 that information, to examine the stock price 12:25:49p
 3 movements on the day that or days in which the 12:25:56p
 4 analyst has been able to determine the 12:26:01p
 5 information was publicly available. 12:26:06p
 6 Q. And in your last answer, when 12:26:09p
 7 you referred to the date on which the 12:26:11p
 8 information was publicly available, do you mean 12:26:13p
 9 by means of some writing or do you mean, 12:26:16p
 10 instead, by means of the rumor process? 12:26:21p
 11 A. I think one needs to determine 12:26:25p
 12 that it was available to market participants. 12:26:30p
 13 Let me see if I can make a distinction, and I 12:26:39p
 14 think it's an important one. 12:26:41p
 15 If -- would I consider as I 12:26:43p
 16 walk back to my hotel tonight or this 12:26:50p
 17 afternoon -- 12:26:52p
 18 MR. COLLINS: Off the record. 12:26:54p
 19 (Discussion off the record.) 12:26:54p
 20 THE WITNESS: As I walk back 12:26:57p
 21 early this afternoon to my hotel, and I 12:26:59p
 22 were to pass someone that said, "Gosh, 12:27:03p
 23 I think Google is overvalued," okay, 12:27:09p
 24 that would be a rumor. Okay? 12:27:14p

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1 Now, how would I as a scientist 12:27:16p
 2 determine whether that rumor was 12:27:21p
 3 material and was available -- was 12:27:25p
 4 reflected in the information that the 12:27:28p
 5 market was using to value the stock? 12:27:35p
 6 Well, I first would have to say, is 12:27:41p
 7 there any indication that market 12:27:45p
 8 participants are aware of that opinion 12:27:48p
 9 and view it as new information? What 12:27:56p
 10 would I do? 12:28:01p
 11 I would not rely necessarily 12:28:02p
 12 completely on written documents, but 12:28:05p
 13 certainly I would look for press 12:28:06p
 14 releases, I would like for company 12:28:09p
 15 releases, I would look for analyst 12:28:11p
 16 discussion, I would go to the -- I 12:28:14p
 17 would review perhaps the e-mails that 12:28:17p
 18 come to the investor relations 12:28:22p
 19 department of a company, I would review 12:28:27p
 20 the conference calls that the company 12:28:28p
 21 holds with investors and analysts to 12:28:30p
 22 determine whether the information that 12:28:33p
 23 I quote, heard on the street was 12:28:35p
 24 information that market participants 12:28:38p

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1 were considering in valuing the stock. 12:28:41p
 2 And then I would look to the time 12:28:49p
 3 at which that were available to market 12:28:50p
 4 participants, and then I would do the 12:28:54p
 5 next step, which would be assess its 12:28:57p
 6 materiality by examining whether it 12:29:00p
 7 changed the total mix of information as 12:29:02p
 8 measured by did it move the stock in a 12:29:06p
 9 significant way. 12:29:12p
 10 BY MR. COLLINS: 12:29:13p
 11 Q. Okay, that is very interesting. 12:29:13p
 12 So let's assume you are walking 12:29:14p
 13 to your cab this afternoon to get a ride to 12:29:16p
 14 the airport and the person who tells you 12:29:19p
 15 Google is overvalued is the CEO of Google. 12:29:23p
 16 Let's further assume that you 12:29:29p
 17 can find no writing, analyst report, press 12:29:32p
 18 report, news story suggesting or stating that 12:29:37p
 19 the CEO of Google believes Google to be 12:29:45p
 20 overstated. 12:29:48p
 21 And let's further assume, going 12:29:49p
 22 to your next step as you called it a moment 12:29:50p
 23 ago, there is a statistically significant 12:29:53p
 24 movement on the day that the CEO of Google 12:29:55p

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1 shared with you this information. 12:30:02p
 2 Under those circumstances, 12:30:04p
 3 would you conclude that it was impossible that 12:30:06p
 4 -- or highly unlikely that oral communication, 12:30:13p
 5 in this case in the form of rumor, materially 12:30:19p
 6 affected the market price? 12:30:23p
 7 A. Well, I mean, I think that if, 12:30:28p
 8 under your hypothetical, if the CEO of Google 12:30:32p
 9 conveyed that information of overvaluation to me 12:30:41p
 10 in the cab and on the same day there was a 12:30:45p
 11 change in the stock price, I would -- first of 12:30:49p
 12 all, under the hypothetical, if I were the one 12:30:51p
 13 that received that information -- and I was the 12:30:57p
 14 only one -- and I didn't trade on it, then 12:30:58p
 15 there's no reason to expect that that 12:31:00p
 16 conversation would have -- that that would be 12:31:03p
 17 causally linked to the stock price movement. 12:31:06p
 18 Now, if, in fact, the CEO of 12:31:09p
 19 Google were -- that we undertook an 12:31:15p
 20 investigation and concluded that in fact on 12:31:20p
 21 the day that I got into the cab and heard that 12:31:25p
 22 Google was overvalued, the CEO had also 12:31:32p
 23 communicated to Black Rock and other 12:31:37p
 24 institutional investors that it was his view 12:31:41p

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1	that the stock was overvalued, would I expect	12:31:45p	1	they would be the same. One could be higher or	01:41:17p
2	then there to be a price reaction? Yes, I	12:31:51p	2	lower, there's no reason to expect -- there's no	01:41:22p
3	would.	12:31:53p	3	reason necessarily to expect them to differ, but	01:41:29p
4	Would I expect also that there	12:31:53p	4	there's nothing that would lead me to believe	01:41:32p
5	would be some discussion, public information,	12:31:56p	5	that they would be the same either. I mean,	01:41:38p
6	that would be indicative of the CEO's comments	12:32:02p	6	there's no --	01:41:41p
7	to that effect? I certainly would think so.	12:32:08p	7	Q. Because they are two different	01:41:42p
8	Because it would be viewed by market	12:32:10p	8	analyses?	01:41:44p
9	participants and powers of the stock as being	12:32:15p	9	A. No. It would -- I think the	01:41:47p
10	something that was material and significant to	12:32:19p	10	issue would be -- sort of a more general issue	01:41:54p
11	them.	12:32:22p	11	would be, if I -- I would expect them to be very	01:41:59p
12	MS. REED: I don't want to stop	12:32:23p	12	similar if the underlying characteristics of the	01:42:02p
13	things, but I was just looking at the	12:32:25p	13	company were similar. I would expect them to	01:42:09p
14	clock and we are at about 12:36, so	12:32:26p	14	differ if, say, the fundamentals of the company	01:42:13p
15	whenever this line --	12:32:29p	15	differed or there was reason to believe that	01:42:19p
16	MR. COLLINS: Just a couple more	12:32:30p	16	market conditions were materially different	01:42:24p
17	minutes.	12:32:31p	17	during a contemporaneous period versus, say, a	01:42:27p
18	MS. REED: Okay.	12:32:32p	18	period prior to an analysis.	01:42:33p
19	BY MR. COLLINS:	12:32:32p	19	Q. Did you consider in your work in	01:42:35p
20	Q. Very interesting. Time for	12:32:32p	20	this case whether there was a marked change in	01:42:36p
21	lunch.	12:32:34p	21	market conditions affecting Adams Golf during	01:42:39p
22	It is not necessary in every	12:32:36p	22	the class period; that is, when you created your	01:42:46p
23	case for there to be a writing in order for	12:32:39p	23	rolling regression in this case and you went	01:42:51p
24	the stock price to move materially; correct?	12:32:43p	24	about this assignment using a rolling	01:42:54p

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1	A. I think that's correct. For	12:32:45p	1	regression --	01:42:56p
2	example, stock prices might move because of	12:32:47p	2	A. Right.	01:42:57p
3	information conveyed during a conference call	12:32:54p	3	Q. -- did you take into the fact,	01:42:57p
4	with the company. Their stock prices could	12:32:56p	4	into consideration, the possibility that there	01:43:00p
5	move, and I would expect there to be discussion	12:33:05p	5	was a marked change in market conditions during	01:43:02p
6	of the -- linking the stock price movement to	12:33:08p	6	the class period?	01:43:04p
7	information that, say, an analyst gathers from	12:33:12p	7	A. During the class period?	01:43:05p
8	discussing a particular stock with the brokerage	12:33:18p	8	Certainly the model will capture the extent to	01:43:07p
9	network.	12:33:22p	9	which that occurs. But I used the	01:43:11p
10	MR. COLLINS: Let's break for	12:33:23p	10	contemporaneous period, as I indicated before,	01:43:21p
11	lunch at the moment.	12:33:24p	11	because I didn't have a period that preceded the	01:43:24p
12	THE WITNESS: Okay.	12:33:25p	12	class period in which the company was publicly	01:43:27p
13	(A luncheon recess was had from	12:33:26p	13	traded because it is an initial public offering.	01:43:30p
14	12:33 p.m. to 1:40 p.m.; and then the	12:33:26p	14	Q. So, so this was the best you	01:43:34p
15	proceedings continued as follows:)	12:33:26p	15	could do?	01:43:36p
16	BY MR. COLLINS:	01:40:47p	16	A. I think that this is -- that	01:43:36p
17	Q. Dr. James, if you do a rolling	01:40:47p	17	what I've done is a reasonable approach and I	01:43:39p
18	regression, are you going to get the same result	01:40:49p	18	think it is, under the circumstances, the best	01:43:44p
19	you will get if your examination period begins	01:40:52p	19	approach to take, yes.	01:43:49p
20	prior to the class period?	01:40:59p	20	Q. Were there other approaches	01:43:50p
21	A. I'm not sure what you mean by	01:41:05p	21	considering the fact that it was an IPO?	01:43:51p
22	"same result."	01:41:07p	22	A. I'm not sure what you mean by	01:43:54p
23	Q. Same R-squared.	01:41:08p	23	"other approaches."	01:43:56p
24	A. There's no reason to expect that	01:41:13p	24	Q. Well, could you have used as the	01:43:57p

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1 A. 9/29. 02:31:56p
 2 Q. 9/29, thank you. 02:31:57p
 3 A. 9/29/98. 02:32:02p
 4 Q. Now, tell me what it is that you 02:32:10p
 5 are pointing out here. This shows that you 02:32:12p
 6 applied the 90 percent level? 02:32:16p
 7 A. No, I'm just saying that it 02:32:18p
 8 reflects the price change and the return on 02:32:19p
 9 9/29/98. 02:32:27p
 10 Q. Okay. 02:32:38p
 11 A. And it's an earnings 02:32:39p
 12 announcement in which the company is 02:32:41p
 13 indicating -- the company attributes the lower 02:32:45p
 14 than expected sales to new product introductions 02:32:50p
 15 by the company's competitors in the fairway wood 02:32:54p
 16 category -- which is Orlimar -- and to a lesser 02:32:57p
 17 extent and to a lesser degree the general 02:33:02p
 18 softening in the golf equipment sales. 02:33:05p
 19 Q. Okay. So what does that tell 02:33:09p
 20 you? 02:33:10p
 21 A. That -- it tells me that the 02:33:13p
 22 company is experiencing lower than expected 02:33:21p
 23 sales as a result of new product introductions 02:33:25p
 24 and competition from the company's competitors 02:33:31p

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1 in the fairway wood market. 02:33:34p
 2 Q. And that was new information as 02:33:36p
 3 of that time? 02:33:38p
 4 A. The impact of that competition 02:33:40p
 5 on the company's earnings appears to be new 02:33:44p
 6 information at that point in time. 02:33:50p
 7 Q. And when you say "on the 02:33:54p
 8 company's earnings," you mean specifically with 02:33:55p
 9 regard to the ongoing third quarter? 02:33:57p
 10 A. This is a prerelease of the 02:34:02p
 11 third quarter results. Excuse me. 02:34:08p
 12 Q. But of course this was not the 02:34:32p
 13 first release of information, not the first time 02:34:34p
 14 the market was aware that Orlimar was offering 02:34:39p
 15 competition? 02:34:46p
 16 A. Oh, no, this wasn't the first 02:34:46p
 17 time, but for information to be material, it 02:34:48p
 18 needs to be -- and impact the stock price, it 02:34:51p
 19 needs to be new information. Certainly the 02:34:56p
 20 information regarding Orlimar as a competitor 02:34:59p
 21 was not new information. Information regarding 02:35:02p
 22 the effectiveness of Orlimar as a competitor and 02:35:05p
 23 Orlimar's activities in the market and their 02:35:09p
 24 impact on Adams would appear to be, at least at 02:35:14p

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1 the 90 percent level, new information. 02:35:17p
 2 Q. If that's true, then why wasn't 02:35:20p
 3 it new information with regard to gray marketing 02:35:23p
 4 on October 22nd when the company announced that 02:35:25p
 5 gray marketing was expected to have an impact on 02:35:29p
 6 fourth quarter results? 02:35:32p
 7 A. They knew -- well, for several 02:35:36p
 8 reasons. The first is with respect to gray 02:35:39p
 9 marketing activity, there was certainly 02:35:45p
 10 information in the market regarding gray market 02:35:48p
 11 activity. Before that -- and it was assessed to 02:35:52p
 12 be not material or significant. 02:35:56p
 13 With respect to the -- and I 02:36:03p
 14 certainly agree that the market reacted to the 02:36:07p
 15 fourth quarter change in expectations which 02:36:15p
 16 was a result of a number of factors, one of 02:36:21p
 17 which the company cites is recent, within the 02:36:27p
 18 last two weeks, gray market activity. 02:36:31p
 19 Q. Let me stop you there. I'm 02:36:33p
 20 looking at your chronology. Where does it say 02:36:35p
 21 last two weeks? 02:36:38p
 22 A. It's -- in the chronology? It 02:36:39p
 23 says -- 02:36:44p
 24 Q. When you talk about the last two 02:36:45p

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1 weeks, you're talking about something else other 02:36:46p
 2 than the press release of October 22nd. I don't 02:36:48p
 3 mean to take advantage of you because you don't 02:36:51p
 4 have the record like the rest of us do, but you 02:36:53p
 5 know -- think about it for a minute, you'll 02:36:55p
 6 realize that the reference to the last two weeks 02:36:57p
 7 isn't in that press release. 02:36:58p
 8 A. Well, I would have to review the 02:37:00p
 9 press release. I believe the press release says 02:37:03p
 10 something to the effect of recent gray market 02:37:04p
 11 activity. 02:37:07p
 12 Q. Take your time, look at your 02:37:08p
 13 chronology. 02:37:09p
 14 A. Okay. (Witness reviewing 02:37:10p
 15 document.) 02:37:12p
 16 I believe it says -- the press 02:38:02p
 17 release says, impacted by recent gray market 02:38:03p
 18 activity. 02:38:11p
 19 Q. Okay. And? 02:38:16p
 20 A. I believe -- I believe that -- 02:38:17p
 21 and I would have to go back and check, but 02:38:18p
 22 associated with this release was a conference 02:38:24p
 23 call with investors, and I believe in that 02:38:26p
 24 conference call the reference is to within the 02:38:31p

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1 last two weeks. 02:38:33p
 2 Q. That's fine. 02:38:34p
 3 So before October 22nd there 02:38:41p
 4 was information in the market that was about 02:38:44p
 5 gray marketing that the market considered not 02:38:49p
 6 material, that's what you just said? 02:38:52p
 7 A. The evidence suggests that it 02:38:54p
 8 was either not new information or not viewed as 02:38:55p
 9 material information. 02:38:58p
 10 Q. But when the company announces 02:39:02p
 11 its expectation of disappointing results in the 02:39:06p
 12 fourth quarter and one of the reasons they cite 02:39:10p
 13 is gray marketing and the stock price goes down 02:39:13p
 14 in a statistically significant way, you were 02:39:18p
 15 prepared to say that none of that decline had to 02:39:22p
 16 do with the market's realization now that it was 02:39:25p
 17 a material problem? 02:39:31p
 18 A. Yes, as it pertains to the 02:39:35p
 19 allegations in the Complaint for purposes of 02:39:42p
 20 assessing damages; in other words, the -- even 02:39:48p
 21 if the market viewed the gray market as being a 02:39:55p
 22 contributing factor to -- the recent gray market 02:40:03p
 23 activity as a contributing factor to lower sales 02:40:10p
 24 in the fourth quarter, my understanding is that 02:40:16p

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1 the Complaint alleges that there were 02:40:23p
 2 misrepresentations and omissions regarding gray 02:40:30p
 3 marketing activity and its risks at the time of 02:40:33p
 4 the IPO. And I certainly don't think that the 02:40:36p
 5 10/22/98 disclosure regarding future earnings 02:40:42p
 6 and the revision that accompanied that of 02:40:51p
 7 analyst expectations about future earnings, as I 02:40:53p
 8 indicated in my rebuttal report, would be 02:40:58p
 9 something that was known or knowable or I would 02:40:59p
 10 expect to be placed in -- and because of that I 02:41:04p
 11 wouldn't expect it to be placed in a prospectus 02:41:10p
 12 or offering material. 02:41:17p
 13 Q. Right. 02:41:18p
 14 A. I'm not aware of any examples in 02:41:19p
 15 which companies as part of the registration or 02:41:21p
 16 prospectus material provide earnings estimates. 02:41:26p
 17 Q. Nor am I. Nor am I aware of any 02:41:32p
 18 pleading in this case making that allegation 02:41:32p
 19 here, so maybe we can ask you to look at the 02:41:33p
 20 Complaint again. 02:41:38p
 21 But you are familiar with the 02:41:40p
 22 nature of the allegations in the Complaint? 02:41:41p
 23 A. Yes. 02:41:44p
 24 Q. And you are familiar with the 02:41:44p

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1 contents of the June 9th press release? 02:41:45p
 2 A. Yes, I am. 02:41:48p
 3 Q. And in terms of the quality of 02:41:49p
 4 the disclosure regarding the impact on Adams 02:41:55p
 5 Golf resulting from gray market, do you believe 02:42:00p
 6 that the June 9th press release was as important 02:42:04p
 7 or meaningful a disclosure as October 22? 02:42:12p
 8 A. I, first of all, haven't been 02:42:22p
 9 asked to assess that. I think, as I sit here, 02:42:23p
 10 those are two different disclosures: One has to 02:42:26p
 11 do with a disclosure about actions the company 02:42:29p
 12 is taking in response to sales of its clubs at 02:42:38p
 13 Costco. October 22nd is a discussion of the 02:42:48p
 14 company's forward-looking earnings estimates and 02:42:55p
 15 how they are impacted by the current market 02:43:00p
 16 conditions that the company faces. 02:43:04p
 17 Q. Different -- different press 02:43:08p
 18 releases, different substance then? 02:43:12p
 19 A. Well, I certainly think they are 02:43:16p
 20 different. I don't see -- and I don't see how 02:43:19p
 21 the October press release regarding fourth 02:43:22p
 22 quarter earnings is -- future earnings is 02:43:26p
 23 related to a June 9th press release regarding 02:43:34p
 24 the bill of discovery concerning the sales of 02:43:46p

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1 clubs at Costco. 02:43:51p
 2 Q. The June 9th press release 02:43:52p
 3 didn't say that there was gray marketing going 02:43:55p
 4 on, did it? 02:43:57p
 5 A. It says -- it says it was filed 02:43:59p
 6 in order to determine whether Costco's claims 02:44:08p
 7 that they had properly acquired Tight Lies 02:44:11p
 8 fairway woods for resale were accurate. 02:44:14p
 9 Q. Okay. Do you read that to say 02:44:22p
 10 that the June 9th press release was a disclosure 02:44:24p
 11 that gray marketing was going on? 02:44:28p
 12 A. It certainly implies to me that 02:44:32p
 13 if one defines gray marketing as the sale by 02:44:36p
 14 Costco or unauthorized distributors or their 02:44:42p
 15 having the clubs available to sell, this would 02:44:48p
 16 certainly indicate that Costco has the clubs. 02:44:52p
 17 Q. Okay. Well, my reading, I 02:44:55p
 18 suppose, isn't relevant at this point, but we 02:44:57p
 19 can deal with that, again, later. 02:44:59p
 20 A. Can we take a -- we've been 02:45:04p
 21 going for about an hour. 02:45:06p
 22 Q. Of course we can. Just let me 02:45:08p
 23 finish a couple of questions along the same 02:45:09p
 24 line. 02:45:12p

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1 Q. Stock return. 04:09:25p
 2 And how do you choose what 04:09:26p
 3 stock return you use? 04:09:29p
 4 A. Over the month? 04:09:32p
 5 Q. For each month. 04:09:33p
 6 A. It's from the close of the prior 04:09:37p
 7 month to the close of the current month, so it 04:09:40p
 8 would be the cumulative return over the month, 04:09:44p
 9 so all of the returns in the month are used. 04:09:49p
 10 All the daily returns are incorporated into the 04:09:53p
 11 monthly return. 04:09:57p
 12 Q. And for the monthly observation 04:09:57p
 13 for the industry index, how did you determine 04:10:00p
 14 that? 04:10:02p
 15 A. The same, the same way. So you 04:10:02p
 16 take each component of the industry -- I think 04:10:05p
 17 the index -- the Bloomberg index is on -- you 04:10:08p
 18 can -- I think -- I think I recall seeing it on 04:10:12p
 19 a level basis, you just take level prior month 04:10:15p
 20 -- level at the end of the month plus level at 04:10:22p
 21 the prior month divided by level at the prior 04:10:25p
 22 month will give you the return over that month, 04:10:28p
 23 the same way you calculate a return over the 04:10:30p
 24 month. 04:10:32p

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1 Q. Why did you perform the 04:10:33p
 2 regression in Exhibit 10; what did that add to 04:10:35p
 3 the work you were doing otherwise? 04:10:37p
 4 A. I think we touched on this topic 04:10:40p
 5 this morning when we had a discussion of why 04:10:43p
 6 market participants and researchers utilize, 04:10:52p
 7 say, monthly returns. Remember I said if you 04:10:56p
 8 look at Ibbotson or Barra or other vendors of 04:11:01p
 9 what are called betas, how stock moves with the 04:11:08p
 10 market, those vendors may also have how stock 04:11:11p
 11 moves with industry comparables; that generally 04:11:15p
 12 that analysis -- not always, but typically that 04:11:19p
 13 analysis is done to figure out the influence of 04:11:22p
 14 general industry factors, is done on a monthly 04:11:26p
 15 basis as opposed to a daily basis for the 04:11:28p
 16 reasons I gave you before, which is that on a 04:11:34p
 17 monthly basis you are basically taking out a lot 04:11:35p
 18 of noise that occurs, what a statistician would 04:11:40p
 19 refer to as noise, on the daily returns due to 04:11:45p
 20 randomness. 04:11:48p
 21 Q. So, again, with regard to 04:11:51p
 22 Exhibit 10, if there were volatility in either 04:11:52p
 23 the index on an intramonth basis or in Adams 04:11:56p
 24 Golf stock on an intramonth basis, that would 04:11:59p

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1 not be reflected; that would be washed out by 04:12:03p
 2 your monthly observation? 04:12:07p
 3 A. Yes, but it would be only 04:12:10p
 4 looking at how one could explain monthly 04:12:12p
 5 variations in the stock return relative to 04:12:17p
 6 monthly variations in the industry index. 04:12:22p
 7 Q. Why was the period under study 04:12:28p
 8 in Exhibit 10, why did that cut off at June 11? 04:12:31p
 9 A. You know, I looked at Exhibit 10 04:12:34p
 10 and I knew you were going to ask that question, 04:12:36p
 11 and I don't recall. I think it, frankly, might 04:12:38p
 12 be an oversight. 04:12:42p
 13 Q. "An oversight" meaning what? 04:12:43p
 14 A. On my part. So I need to go 04:12:46p
 15 back -- in just assembling this, as I sit here, 04:12:48p
 16 I don't recall why it ended in June of 1999. 04:12:55p
 17 Q. Did you consider -- and I 04:12:58p
 18 understand, I respect people that forget things, 04:13:02p
 19 I do that, too. But did you consider, if you 04:13:04p
 20 know, running the regression at Exhibit 10 04:13:06p
 21 through December '99 as you ran the regressions 04:13:09p
 22 in Exhibit 12? 04:13:18p
 23 A. I don't recall making a 04:13:24p
 24 distinction between June of 1999 and December of 04:13:27p

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1 1999, so as I sit here I don't recall making any 04:13:35p
 2 conscious decision to cut one analysis at 6/99 04:13:44p
 3 and the other analysis at year-end 1999. 04:13:48p
 4 Q. I want to go back to a couple of 04:13:58p
 5 points you raised earlier. First, you said that 04:14:00p
 6 you did consider a two-day event window in 04:14:03p
 7 response to the August 28, 1998, Lehman analyst 04:14:07p
 8 report; correct? 04:14:14p
 9 A. Right. 04:14:15p
 10 Q. Did you consider a three-day 04:14:15p
 11 event window? 04:14:17p
 12 A. No. 04:14:18p
 13 Q. Did you consider a two-day event 04:14:18p
 14 window with regard to any other periods of the 04:14:21p
 15 class period? 04:14:25p
 16 A. I don't recall that I did. 04:14:29p
 17 I do recall, as we mentioned 04:14:34p
 18 earlier today, doing an analysis in response 04:14:37p
 19 to something which was in Mr. Miller's report, 04:14:43p
 20 and that was he indicated -- he made two 04:14:50p
 21 points: First, that, you know, while I looked 04:14:55p
 22 at statistical significance at a 95 percent 04:15:00p
 23 level, I didn't look at the significance at 04:15:04p
 24 other levels. And, as I indicated in my 04:15:06p

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1	report, the 95 percent level is the	04:15:08p	1	regarding -- there would be no reason to use a	04:18:22p
2	conventional level; although, some researchers	04:15:11p	2	multiple-day window more than two days for this	04:18:28p
3	will report significance at a 10 percent	04:15:17p	3	analysis because you would use that if you were	04:18:34p
4	level. And so I examined whether there were	04:15:21p	4	uncertain as -- you have a news announcement --	04:18:37p
5	days that were significant at a 90 percent	04:15:31p	5	we talked about this earlier today; if you had a	04:18:40p
6	level and what information was coming to the	04:15:36p	6	news announcement and you weren't sure whether	04:18:44p
7	market on those days.	04:15:47p	7	that news announcement was made -- you know what	04:18:46p
8	Second is in response to a	04:15:49p	8	day it was made on, but you don't know whether	04:18:48p
9	comment in his report concerning looking at the	04:15:51p	9	it was during trading hours or not.	04:18:54p
10	returns over multiple days. I asked the	04:16:01p	10	Q. Sure.	04:18:54p
11	question of whether if the results and my	04:16:03p	11	But you might also have new	04:18:54p
12	conclusions regarding statistical significance	04:16:11p	12	information enter in the market or allegedly	04:18:55p
13	and the information coming to the market on	04:16:16p	13	new information enter in the market that might	04:18:58p
14	those days would be altered if I used a two-day	04:16:18p	14	be in the form of rumor or oral communication	04:19:01p
15	window, and concluded that -- my conclusions	04:16:25p	15	which would be another situation in which you	04:19:03p
16	were the same whether I used a two-day window or	04:16:33p	16	were uncertain as to what the disclosure date	04:19:06p
17	a one-day window for each of the events that I	04:16:36p	17	is. Correct?	04:19:08p
18	analyzed.	04:16:43p	18	A. No, I would certainly think that	04:19:09p
19	So if you take the Golf Pro	04:16:44p	19	if there was an allegation that a rumor or oral	04:19:11p
20	August 1st article and say, well, look at a	04:16:47p	20	communication were material, that you would be	04:19:18p
21	two-day window around that, would that alter	04:16:50p	21	able to identify the date at which that	04:19:25p
22	your conclusion regarding the statistical	04:16:53p	22	information became available to the market. I	04:19:30p
23	significance, would using a 90 percent	04:16:58p	23	would also say that -- and be able to relate it,	04:19:33p
24	confidence interval as opposed to a 95 percent	04:17:05p	24	as I talked about earlier today, in an objective	04:19:37p
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1	confidence interval impact the conclusion, and	04:17:08p	1	scientific manner, to the price reaction.	04:19:44p
2	the answer to both of those questions is no.	04:17:11p	2	As I have indicated, oral	04:19:48p
3	Q. Which events or which time	04:17:19p	3	communication, as it would be in the context	04:19:51p
4	periods during the class period did you consider	04:17:21p	4	of a conference call with investors, you would	04:19:52p
5	using a multiple-day event window for?	04:17:25p	5	look at the day on which that conference call	04:19:57p
6	A. Every day.	04:17:29p	6	occurred, that oral communication, for	04:19:59p
7	Q. Okay. And which events did you	04:17:31p	7	purposes of determining whether that	04:20:03p
8	consider using the 90 percent confidence level	04:17:33p	8	communication was material.	04:20:07p
9	for?	04:17:37p	9	Q. If it were a rumor, however, you	04:20:09p
10	A. Every day.	04:17:38p	10	might not know when the rumor first started	04:20:11p
11	Q. And how did you apply that using	04:17:40p	11	circulating; correct?	04:20:15p
12	every day? For example, if I can turn you to	04:17:42p	12	A. I think that's -- I mean, again,	04:20:19p
13	Page Exhibit 5?	04:17:46p	13	it's -- and we went through this before -- I	04:20:22p
14	A. Mm-hmm.	04:17:54p	14	would -- if I were asked to assess the	04:20:25p
15	Q. With regard to using a	04:17:55p	15	materiality of an alleged rumor, the first step	04:20:28p
16	multiple-day event window, what did you mean by	04:18:00p	16	I would take is to try to determine when that	04:20:33p
17	that; three days or five days?	04:18:03p	17	rumor was being utilized by market participants	04:20:35p
18	A. Two days.	04:18:04p	18	for purposes of pricing or valuing the stock.	04:20:45p
19	Q. Okay. You didn't look at	04:18:05p	19	I would also think that --	04:20:48p
20	anything more than two days, did you?	04:18:06p	20	there's certainly -- and I would -- I would	04:20:54p
21	A. No, I had no information that	04:18:08p	21	expect to see, if it was a rumor that was	04:20:59p
22	would indicate to me that the market would not	04:18:10p	22	material and significant to investors, that --	04:21:02p
23	operate in an efficient way and I had no	04:18:15p	23	as I indicated before, that there would be	04:21:06p
24	information to me that indicated any uncertainty	04:18:18p	24	some commentary on it, in some source.	04:21:08p

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1	the hypothetical situation that Barney Adams	04:55:33p	1	marketing, because in your last answer you	04:58:33p
2	harbored such a belief, would that constitute	04:55:35p	2	referred to the analyst view, and the analyst	04:58:36p
3	some evidence?	04:55:39p	3	view as of August 4th did not include gray	04:58:39p
4	A. That -- of what?	04:55:42p	4	marketing but it did include gray marketing as	04:58:42p
5	Q. Some evidence that the gray	04:55:45p	5	what I think was referred to as a, quote,	04:58:46p
6	market represented part of the reason for the	04:55:47p	6	serious, closed quote, issue on August 28th?	04:58:48p
7	decline in analyst expectations.	04:55:51p	7	A. I don't know that it was	04:58:51p
8	A. Without a -- what I would	04:55:55p	8	referred to as, quote, a serious issue or not.	04:58:53p
9	require for that is a link between his	04:55:58p	9	It is -- it was not mentioned on August 4th and	04:58:56p
10	hypothetical belief and a communication with	04:56:05p	10	it was mentioned and discussed on August 28th,	04:59:00p
11	analysts regarding that belief to be able to	04:56:12p	11	and I think -- and that is obviously one reason	04:59:04p
12	assess whether their forward-looking earnings	04:56:16p	12	why I examined the price reaction on August	04:59:07p
13	estimates were revised based upon Barney Adams'	04:56:24p	13	28th. And given the fact that that -- and this	04:59:13p
14	belief about gray marketing.	04:56:31p	14	is really -- as Mr. Miller indicates, that the	04:59:18p
15	Q. Did Barney Adams communicate	04:56:34p	15	August 28th was a -- the disclosure of gray	04:59:22p
16	with the analysts in connection with fourth	04:56:37p	16	market risks was in conjunction with other	04:59:29p
17	quarter expectations?	04:56:40p	17	favorable information in the report.	04:59:32p
18	A. I think you asked me that	04:56:42p	18	And I looked at the information	04:59:35p
19	question and I answered he did.	04:56:44p	19	in the report regarding the investment thesis	04:59:37p
20	Q. Okay. That's fine.	04:56:45p	20	and the rationale for the recommendation and	04:59:39p
21	Now, at least under the	04:56:47p	21	target price, and found that they were	04:59:42p
22	analysis -- well, thank you.	04:56:50p	22	identical to the items listed in the August	04:59:44p
23	How does the market in general	04:57:05p	23	4th recommendation and initiation of coverage	04:59:49p
24	react to new information that contains both	04:57:07p	24	which led me to believe that that was not new	04:59:57p

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1	positive and negative elements?	04:57:10p	1	information.	04:59:58p
2	A. It would depend on the facts and	04:57:15p	2	Q. Let's approach it this way.	04:59:58p
3	circumstances.	04:57:17p	3	Let's look at a hypothetical situation where	05:00:00p
4	Q. Well, let's look at the August	04:57:18p	4	there is new information both good and bad	05:00:01p
5	28th Lehman analyst report. Did that contain	04:57:20p	5	presented simultaneously to market participants.	05:00:06p
6	new information?	04:57:24p	6	In a situation like that, does it sometimes take	05:00:11p
7	A. In my view, there's very little	04:57:28p	7	longer for the market to digest the information	05:00:14p
8	new information in that analyst report. If you	04:57:32p	8	and for the market to react than would be the	05:00:18p
9	take a look at and compare the investment thesis	04:57:35p	9	case in the event that the information were all	05:00:21p
10	that is outlined in the August 4th analyst	04:57:39p	10	good or all bad?	05:00:24p
11	report on the initiation of coverage to the	04:57:43p	11	A. No, I don't think that the	05:00:25p
12	analyst report that is August 28th, you will see	04:57:47p	12	information -- that the time it takes the market	05:00:26p
13	that they are virtually identical.	04:57:51p	13	to incorporate new information into the price is	05:00:29p
14	You will also see, if you	04:57:57p	14	dependent upon whether the information is in	05:00:35p
15	compare the two reports, that the target	04:57:57p	15	conjunction with other information. I mean, I	05:00:42p
16	prices established by the analyst, the	04:57:59p	16	think that the evidence indicates, from numerous	05:00:47p
17	recommendation and the rationale for the	04:58:01p	17	academic studies and it's been my experience,	05:00:52p
18	recommendations, are all the same.	04:58:05p	18	that -- and this illustrated here in this case	05:00:55p
19	So there does not appear to me	04:58:09p	19	with respect to the speed with which Adams Golf	05:00:59p
20	to be, between the August 4th and the August	04:58:11p	20	responds to new information, but new information	05:01:02p
21	28th, new information regarding what the	04:58:14p	21	gets embedded in prices almost immediately.	05:01:05p
22	analyst views as the key factors behind the	04:58:21p	22	Q. I'm jumping around a little, but	05:01:11p
23	recommendation of the target price.	04:58:30p	23	that's good news because that means I'm going to	05:01:14p
24	Q. Except, of course, gray	04:58:32p	24	let you out of here soon.	05:01:16p

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1 Q. Are there models that can be 05:21:20p
 2 used that test materiality on the basis of 05:21:21p
 3 volume or some combination of volume and price 05:21:25p
 4 movement? 05:21:29p
 5 A. I mean, I have not seen that 05:21:37p
 6 analysis done in the context of, say, a damage 05:21:40p
 7 analysis. I have seen some academic studies 05:21:43p
 8 that ask the question of whether information has 05:21:49p
 9 an effect on trading volume. 05:22:01p
 10 Q. And do you have any opinion as 05:22:11p
 11 to the usability or appropriateness of those 05:22:13p
 12 models? 05:22:17p
 13 A. I think the appropriateness 05:22:20p
 14 would depend on the purpose of their being 05:22:23p
 15 used. I would have to go back and look at some 05:22:31p
 16 of those papers. Most of the paper -- the 05:22:36p
 17 academic literature in finance is more focused 05:22:40p
 18 on how information impacts value as opposed to 05:22:48p
 19 trading volume. Although, there are a few 05:22:53p
 20 papers out there that look at trading volume. I 05:22:55p
 21 just don't recall what the conclusions are. 05:22:58p
 22 Q. The famous Golf Pro article 05:22:59p
 23 allegedly of August or August 1, 1998, when was 05:23:03p
 24 that available to the market? 05:23:08p

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1 A. As I indicate in my report, it's 05:23:10p
 2 my opinion that it's available to the market on 05:23:16p
 3 August 1st. 05:23:19p
 4 Q. Well, surely you're not offering 05:23:19p
 5 an opinion on that now, Dr. James, are you? 05:23:21p
 6 A. Yes, I am. 05:23:23p
 7 Q. You might be making an 05:23:24p
 8 assumption, but you are offering -- are you an 05:23:26p
 9 expert with regard to when Golf Pro appeared in 05:23:29p
 10 1998? 05:23:32p
 11 A. I'm not representing myself to 05:23:33p
 12 be an expert in when Golf Pro appeared. I am 05:23:35p
 13 representing myself to be an expert in, first of 05:23:40p
 14 all, knowing what the publication date and the 05:23:43p
 15 convention of using publication dates. I 05:23:50p
 16 believe your own expert uses the publication 05:23:52p
 17 date as the date referenced in his chronology. 05:23:55p
 18 Second, I undertook an 05:23:59p
 19 investigation to determine whether there was 05:24:01p
 20 any evidence that suggests that the Golf Pro 05:24:03p
 21 article was available prior to the cover day 05:24:06p
 22 and concluded based on that analysis that 05:24:12p
 23 there was none. 05:24:14p
 24 Q. Okay. Do you know of any 05:24:15p

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1 evidence, apart from what you've put in your 05:24:16p
 2 reports, to indicate when that Golf Pro article 05:24:21p
 3 was available? 05:24:24p
 4 A. Yes. 05:24:26p
 5 Q. When? 05:24:26p
 6 A. In response to the Miller report 05:24:28p
 7 where he conjectures that it might have been 05:24:32p
 8 available earlier, I performed the following 05:24:37p
 9 test. Based upon communications that I'm aware 05:24:40p
 10 of between Cornerstone and the publishers of 05:24:46p
 11 Golf Pro, which is now not currently published, 05:24:53p
 12 they were unable to answer the question as to 05:25:04p
 13 whether it was available before or after the 05:25:05p
 14 cover price -- cover date. 05:25:08p
 15 So I conducted a Factiva search 05:25:11p
 16 between 1995 and 2000 in which I used the 05:25:15p
 17 keywords "Golf Pro magazine," and then I 05:25:22p
 18 looked at all of the articles that were 05:25:26p
 19 available on Factiva that reference Golf Pro 05:25:29p
 20 magazine and asked the question of whether 05:25:34p
 21 there was any reference in the public press to 05:25:36p
 22 a Golf Pro magazine article prior to the 05:25:41p
 23 stated publication date on the cover, and I 05:25:46p
 24 was able to identify several instances in 05:25:50p

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1 which there is a reference to a particular 05:25:53p
 2 issue of Golf Pro magazine, and all of the 05:25:57p
 3 references were after the publication date 05:26:01p
 4 which is consistent with -- which is 05:26:04p
 5 inconsistent with the conjecture by Mr. Miller 05:26:09p
 6 that the information was available to the 05:26:13p
 7 market prior to the cover date. 05:26:19p
 8 Q. Did you save those searches? 05:26:27p
 9 A. No. 05:26:29p
 10 Q. Did you communicate with your 05:26:30p
 11 office about providing to us information with 05:26:34p
 12 regard to the additional regressions you said 05:26:35p
 13 you would have? 05:26:38p
 14 A. I have -- it's not my office. 05:26:41p
 15 Q. Cornerstone. Whomever you had 05:26:43p
 16 to communicate with. 05:26:44p
 17 A. Yes, and the individual that is 05:26:46p
 18 available -- the individual who undertook that 05:26:53p
 19 analysis is not available, he's -- that's Amir 05:26:59p
 20 Rosen, and I believe he's attending a deposition 05:27:07p
 21 today. 05:27:10p
 22 Q. Not in this case? 05:27:11p
 23 A. Yes, I believe he's downstairs, 05:27:12p
 24 two stories down. 05:27:14p

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October 22, 1998

Mr. Phil Hawes
East Coast Golf & Tennis
10428 Autopark Ave.
Bethesda, MD 20817

COPY

Dear Phil,

What follows is a series of pretty direct thoughts. If you know me, you will recognize the approach, it's the only way I know how.

First is Costco. We do not sell to them. One or more of our customers does and this has become a serious problem for both Adams Golf and our customers. In our prospectus and on our road show we stated that we don't sell to Costco type operations and we have not. If we sold to them and did not make an announcement we would be subject to litigation. I know it's been said, "Barney is selling Costco to make his numbers, it's the public company story." That is 100% wrong. We could, they'd love to have us, but we don't.

Given that we don't, what is Adams doing to protect its accounts from Costco and their pricing?

- A. Starting 10/15/98 we announce a national promotion -- buy two Tight Lies® and get a \$150.00 value stand bag free. Participating retailers, Costco not included. This is no cheap bag, it's as good as any on the market. I use it myself. This program will be advertised nationally along with a new theme in our advertising showing the greater hitting area in the patented Tight Lies design (and a new infomercial).
- B. By year-end we'll have the ability to serialize (numerically) every head. We'll always know what goes where. We are also evaluating other methods to determine the source of these transshipments.
- C. We are rewording our purchase order document. Working with attorney's we want the maximum ability to take legal action against retailers shipping to other channels instead of selling to consumers.
- D. We have initiated legal action against Costco in an effort to force them to disclose their sources. This will probably fail, Costco is a master at this but we'll try.
- E. We will do everything we can to protect the relationships (and margins) with our good customers. (And I might add, we're open to suggestions.)

Second is our new driver. We promised a new driver for Q1 '99 and we will deliver. It will be a new technology and superior to competition. It will be supported by a multi-million dollar advertising program and that's only the beginning of the story.

The driver program doesn't work unless you make money. The formula is clear but complex.

ADAMS 001527

2801 East Plano Parkway, Plano, Texas 75074 • www.adamsgolf.com
(972) 673-9000 • (800) 622-0609 • FAX: (972) 398-8818

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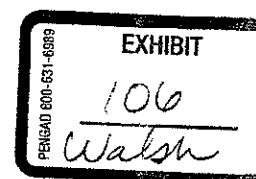
ADAMS GOLF

**Moderator: Patty Walsh
October 23, 1998
1:00 p.m. CT**

Operator: Good day and welcome to this Adams Golf third quarter results conference call.

Today's call is being recorded. At this time for opening remarks and introductions I would like to turn the call over to the Director of Investor Relations, Ms. Patty Walsh, please go ahead ma'am.

Patty Walsh: Good afternoon ladies and gentlemen and welcome to the Adams Golf third quarter earnings release teleconference. With me today are Mr. Barney Adams, Chairman, Chief Executive Officer and President and Mr. Darl Hatfield, Senior Vice President, Finance and Administration and Chief Financial Officer of Adams. As a formality, before we begin I need to point out that any comments made about future performance reflect our best judgement today based on current market trends and conditions. Any such comments or forward looking statements should be understood in the context of our publicly available report filed with the SEC including our prospectus which contains a discussion of various factors we believe may affect our business. Certain factors, which could be expected to affect future performance, include market demand and acceptance of products and business conditions in the golf equipment industry generally. These factors could cause actual future performance to differ materially from current expectations. At this time I'd like to turn the meeting over to Barney Adams.



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Barney Adams: Hello everyone. Yesterday afternoon we announced our third quarter results which Darl will elaborate out in a minute. I'd like to make one comment before Darl gets started and that is in light of the general softening of the golf market we are very positive about those results and I'm going to elaborate on them later but I want to turn it over to Darl just now.

Darl Hatfield: Thanks Barney. Although the third quarter was disappointing in terms of not meeting analyst's original estimates it did however represent a significant increase over the comparable period in 1997. Sales for the third quarter were twenty-three million compared to fourteen point two million in the third quarter of 1997. Sales for the first nine months were eighty-one point three million versus nineteen point seven million in the comparable period of 1997. Aggregate units sold in the third quarter were approximately two hundred and ten thousand. A breakdown of sales by product category for the three and nine months ended September 30th, 1998 is as follows, for the three months, the original sixteen degree lofted tight ((inaudible)) club represented thirty-six point five percent of our revenues. Other lofted fairway woods represented fifty-nine point eight percent and other products which are primarily represented by our custom fitting operations, represented three point seven percent of our revenues. Year to date the original sixteen degree lofted club is forty-two point nine percent of revenues, other lofts are fifty-three point nine and the other product category of three point two percent. The increase in the percentage of net sales represented by other lofted clubs category continues the trend that has occurred over the last three quarters and has been accelerated by the addition of the two wood and to a lesser degree, the eleven wood, both of which were introduced in late August of this year. A breakdown of our sales by geographic territory on a broad basis is as follows, for the three months ended September 30th, 1998, domestic sales represented eighty-five point seven percent of our revenues. International represented fourteen point three percent. For the nine month

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period, domestic represented eighty-nine point two percent and international represented ten point eight percent. Of our domestic sales in the third quarter, direct response sales accounted for seven point eight percent of those revenues with the remainder primarily represented by sales to our retail customers. A further breakdown of our international sales shows that for the three months, Asia represented fifty point five percent, Europe, twenty-eight percent and the rest of the world represented primarily by Canada was twenty-one point five percent. For the nine month period, Asia represented thirty-four point eight percent, Europe was thirty-one point one and the rest of the world was thirty-four point one percent. Gross profit as a percentage of sales for the third quarter decreased to seventy-three point nine percent from seventy-four point seven in the comparable period in 1997 and seventy-seven percent in the second quarter of 1998. The decrease in gross profit is due primarily through a reduction in the average sales price of the tight (wise) club at the wholesale level due to increasing competition in the fairway wood segment and to the liquidation of our demo club inventory in the third quarter. Operating expenses as a percentage of sales equaled forty-six point eight percent and is composed of selling and royalty expense, general and administrative expenses and to a lesser extent, research and development. Selling and royalty expense equaled thirty-one point seven percent of sales for the third quarter of 1998 compared to thirty-nine point one percent in the comparable period in 1997. The biggest component of this expense is advertising which we break down into image based advertising and direct response advertising. Both types of advertising were somewhat higher than expected when expressed as a percentage of sales because of the lower than expected sales volume. In addition, the company incurred start up costs associated with the production of new commercials. General and administrative expenses equaled thirteen point one percent of sales for quarter three as compared to four point two percent for the comparable period in 1997 and ten point nine percent for the first six months of 1998. The increase in G&A expenses as a percentage of sales is primarily due to the lower level of sales in quarter three as compared to the first and second quarter of 1998.

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considering the fixed nature of these expenses. Finally, R&D expense equaled two percent of sales for the third quarter. As a result, net income was eighteen point nine percent of sales or four point three million and year to date, for the first nine months was twenty point five percent of sales or sixteen point six million. That concludes my prepared remarks so I'll turn the call back over to Barney.

Barney Adams: Thanks Darl. You know as I stated previously, if you took our third quarter results and forgetting the comparison of us to us, just took our third quarter results and looked at them in light of the industry my gamble is that an awful lot of companies would trade places with us. This does not mean that we're proud of missing our number but it does mean that we're still a very, very strong company. Now having said that, in our recent press release we talked about the fourth quarter that this market softness is going to continue, there's just a lot of factors out there. But the bottom line is that we'll probably come in at or slightly below break even. Now we knew months ago that we were going to sell our millionth (tight lie) sometime during Q4 of 98. And I think what's remarkable about that is the marketing for this club started less than eighteen months ago. We wanted to figure out a way to say thank you to the American golfers at the same time say thank you to our good retail accounts. So we've come up with a program, started October 15th, it runs for a month, anyone who purchases two (tight lies) during that period gets a one hundred and fifty dollar stand bag absolutely free. As I said, this not only allows us to thank the consumer but it allows us to work with our retail accounts and help them move merchandise off their shelves. At the same time, our new infomercial will view next week and it is going to be accompanied by a new ad campaign. And that's important because at the beginning, when we first did all of our ads, and you have to remember the ads you see for the most part and certainly the infomercial were done back in day one, eighteen months ago. And in those days the issue was big club versus small club. Well little did we know that we were going to change the way fairway woods were designed in the golf industry and that of course is what's happened. So now our issue is

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to differentiate ourselves from other manufacturers who come up with low profile fairway woods. And we've been able to do that on a technical basis that shows that we have a distinctive technical advantage with our design over anybody else on golf. You combine that with the fact that we are also more aggressively showing that we make seven different (lofts). We found out in some of our focus groups that people didn't realize we made all those (lofts) so we're being much more aggressive with the marketing of all of our (lofts). And we have a very strong marketing program going into Q4 of this year and of course will also go into the first quarter and so on of next year for just the (tight lies). Now the other obvious question is 1999, where are we, where are we going, etceteras. And as I've said back in the road show and continue, we're going to introduce a new driver early in 1999. Regardless of how soft the golf market gets the overall market for drivers is still, in the United States, approximately five hundred million dollars. So from our prospective that's what we're focusing on. We see a market opportunity for us, it's significant whether the market is up or down it's still a very significant number and that's what we're concentrating on to help us improve our sales and margin performance in 1999. That's the end of my remarks and we'll be glad to open the call to questions.

Operator: Thank you sir. The question and answer session will be conducted electronically. If you would like to ask a question you may signal by firmly pressing the star key followed by the digit one on your touch tone telephone. We'll proceed in the order that you signal us and we'll take as many questions as time permits. Once again if you do have a question please press the star key followed by the digit one. And we'll take our first question from Brian Lantier of Lehman Brothers.

Brian Lantier: Good afternoon gentlemen, Brian Lantier with Lehman Brothers. I was wondering if Barney if you could specifically comment to some of the ways you're going to address the sales in the gray market going through to the wholesale clubs which you mentioned in your press release?

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Barney Adams: Yeah, we're going to do two things, we are going to have the ability shortly to serialize clubs and the bottom line to that is that we're going to be able to track them any place they go. The second thing is that we are, you know we have legal restrictions, I mean there's only a certain things we can do but within the guidelines and let's say, pushing the guidelines of what we can do legally, we are rewriting all of our sales contracts with our wholesalers to do whatever we can to discourage that action.

Brian Lantier: Great. Do you have any feedback so far on the consumer response to the two wood?

Barney Adams: Yeah it's been a, I have to be honest, I tell you it's been a pleasant surprise. People are, people like their (tied lies) so much that they like to tee off with it and they're raising this club as kind of a club I can hit off the fairway, a club I can hit off the tee. So it's been stronger then I expected.

Brian Lantier: Great. Quick question for Darl, day's sales outstanding, they seem to be inching up a little bit is this in line with what you expected?

Darl Hatfield: They are, have gone up a little bit but as of September 30th it's about forty-four days so yes, we think that's right in line where we would expect.

Brian Lantier: Okay, great. Thank you.

Operator: We'll take our next question from John Weiss at NationsBanc.

John Weiss: Had a couple of questions if I may. First who is the retailer that seems to be obtaining your club in the gray market? What retail price is that retailer offering it at?

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And why is that having such a significant affect on your sales? This is obviously a problem for a lot of golf club manufacturers. And I was also wondering if you could serialize the clubs in a way that those who diverted in the future aren't able to easily obliterate the serial number.

Barney Adams: I'll answer your question in reverse. We think the answer to part B to your question is yes we can do that. We'll have pretty good control over that. Going back to the first part of your question, we have been, there's no secret here but we have been advised by our attorney that we shouldn't mention any names. So I can only say it begins with C and ends with O and it's a membership corporation that comes out of the West Coast United States. Middle initial is T if it helps you any.

John Weiss: Yeah I think I can narrow it down to one or two.

Barney Adams: Well you know, it's like jeopardy John. Here's what happened. I mean these guys have been calls from deviators for several months. This is not new information. But in the last couple of months it increased, not even the last couple of months, I'd say the in the last couple three weeks it increased dramatically. And it just upset a lot of our retail market. We got calls from retail markets saying hey we can't compete, they're selling this thing for, I think they're selling the thing on a graphite shaft for a hundred and forty-nine dollars. We can't make any money selling at that price. And you know, I'll tell you what the accusation was. The accusation really was, and I got this in writing from one of my customers, Oh you guys are a public company. You'll do anything to make your numbers and you guys are really selling to them. And there's a great irony here because we've actually turned down business in that marketplace because we said we weren't going to sell there. But they actually accuse us of it. So now we, now we're kind of in a when do you stop beating your wife situation here. We have to go back and convince our own retailers that even though our clubs are in those stores we didn't sell them to them.

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John Weiss: Thank you.

Barney Adams: You're welcome.

Operator: And we'll take our next question from Dave Turner at Ferris Baker, Watts.

Joe Tecklets: Hi guys, actually Joe (Tecklets) here. Question first on gross margin, Darl can you quantify what the liquidation of the demo clubs did to your gross margin in the quarter? Or how many clubs, I think you said there are two hundred and, how many units in the quarter, two hundred and ten thousand?

Darl Hatfield: Yeah we sold two hundred and ten thousand units in the quarter. Demo clubs represented about thirteen thousand units and they were sold at gross profit obviously that's significantly below what we normally would sell our new clubs for.

Joe Tecklets: But you can't quantify that in terms of basis points off of the, maybe the normalized gross margin?

Darl Hatfield: It would be about twenty points under normal gross margin.

Joe Tecklets: Okay and you said there was a reduction in the average sale price at wholesale, when did that go into affect and maybe how big of a reduction was there?

Darl Hatfield: There was no formal date as to when any kind of a pricing policy went into affect but our average price was somewhat lower this quarter then it has been in previous quarters.

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Joe Tecklets: Is that an ongoing strategy or has that leveled out? Do you have a set price now?

Darl Hatfield: No we think that that probably has leveled out and we don't think that that will be further reduced in the fourth quarter.

Joe Techlets: And also is this a, was this more a direct response or a retail issue and is it across the board? Are you giving discounts to certain retailers for quantity or?

Darl Hatfield: Yes it's on a very selective specific basis.

Joe Techlets: Okay. And lastly Barney, when you say a driver in 1999 are you talking about January? You said early 1999.

Barney Adams: Right our goal is, was and continues to be to have it by January of 1999. The only reason that I will not come out and say ((inaudible)) is because this product, again as I've said all along, is going to be a technically different and superior product. And it has to meet certain standards before we're going to release it. We're very optimistic but we aren't making any definitive comments.

Joe Tecklets: Can you say if there's any titanium in it?

Barney Adams: It's entirely possible Joe.

Joe Tecklets: Okay. Last question Darl, any extended terms out there in the channel as well or have you extended your terms at all?

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Darl Hatfield: No as a general rule we have not ended our terms. There are some situations where, when you view the overall transaction in terms of number of clubs and other terms involved where we did extend the terms somewhat but that's in a very, very small portion of our sales. And those cases it was simply to meet competitive situations.

Joe Techlets: Okay thank you.

Operator: We'll go next to Mitchell Spiegel at DLJ.

Mitchell Spiegel: Yeah a couple quick questions just regarding the industry, could you comment what you're seeing in terms of retail inventory levels and when you think, if there is any sort of build up that should correct itself? And then on the competitive front, in terms of pricing you've made some general comments and we've heard some other golf club manufactures comment about a very difficult environment in terms of pricing. Can you just give me a sense on where you see that, you know, when and whether you see it stabilizing in the next six months?

Barney Adams: Mitchell I wish I had a better crystal ball to be honest with you but I don't. You know a lot of the data about the golf industry, in fact almost all the data about the golf industry comes from people who sell woods, irons, wedges, putters, you know even golf balls, etceteras. So the comments tend to be inclusive of all products. We only concentrate on fairway woods. What we know about fairway woods as far as the market is concerned is that at the very least all other manufactures have decided that our methodology for making a fairway must be right because they're all doing the same thing that we are. And that's caused a little confusion in the marketplace and it's caused a little confusion with our retailers. And we, we anticipated this but I suppose the most honest answer I can give you is I don't think we thought that every single company that makes clubs was going to jump on our bandwagon. We knew some of them were but that's

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what's happened. Now from the same, but the answer to that, I mean the settling out for us, we're not so much looking for the settling out. And this is what I eluded to earlier is that we've put together a very clear and concise advertising program that shows that we don't care what they do we have a distinctive advantage in our design. And that's really our approach to the thing is that we have to differentiate and sell what we can do.

Mitchell Spiegel: Okay and then I guess, while a small portion of your revenue has come from Europe, do you have any sense of there's been some comment as to there's a slow down in the golf market across Europe, some of it related to El Nino and just other general malaise. Can you comment on that?

Barney Adams: I'm afraid it's the same answer. I'm afraid because we're so isolated that another company that would sell woods, irons, wedges, putters, etceteras would probably have a better feel for it then we would. We are just getting started in Europe and Asia as you can see by the significant increase in international sales. So again, it's more of our goals visavis what percentage of sales we want to accomplish in the next year.

Mitchell Spiegel: Great, thank you very much.

Operator: We'll go next to Fred Kull of Fred Kull Financial Advisors.

Fred Kull: Yes sir, if you could tell me what your free cash flow was in the quarter just ended, what your guess pre-cash flow will be in Q4 assuming it's flat? And number three, the rational for using your precious cash as a young company fighting larger competitors in an uncertain future to buy in shares where there's simply no support what ever for virtually any of the smaller companies.

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Darl Hatfield: Concerning the cash flow we generated about two million dollars to cash flow from operations this quarter. Next quarter, again we don't comment on specifics but as we indicated we'll be at or slightly above the breakeven level on earnings. And as you might suspect our cash flow should be a positive amount based on that but will not be significant.

Barney Adams: Fred I'll answer part three, this is Barney Adams. I understand your question. I don't think there's a good answer for it. I can only tell you that from our prospective based on hundreds of phone calls from investors, from investment bankers, etceteras we were probably damned if we did and damned if we didn't. And I wish I had a more intelligent answer for you then that but that's it. I suppose that the best news is that thus far we're able to use a very small percentage of our cash in this objective. But I mean, I still understand the, one of my very good friends who's a financial advisor expressed what you just expressed to me in much stronger terms. So I understand your question.

Fred Kull: I felt constrained. What will the attitude going forward? Is this an open question going forward or sort of what's the feeling, the next step on this issue?

Barney Adams: It's still alive but our concentration is and always has been on doing a better job running the company. And I guess, again giving the constraints I'm under and so on that the buy back program is still in affect but I suppose like all programs it's under constant scrutiny.

Fred Kull: Thank you.

Operator: We'll take our next question from Matthew Ziehl of Salomon Brothers Asset Management.

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Matthew Ziehl: Yes, hi. Just a following up a question about the share repurchase program, it's, obviously it's quite accretive to earnings per share to, or somewhat accretive to complete the program. Is that your intent to complete the program especially with the stock around four dollars?

Darl Hatfield: We still have an authorization in place by our board to repurchase up to two million shares. We've purchased as we indicated six hundred and fifty-seven thousand to date and we'll re-evaluate that based on market conditions. But that repurchase authorization does remain open and we will continue to consider it.

Matthew Ziehl: Okay thanks.

Operator: We'll go next to follow up question from John Weiss at NationsBanc.

John Weiss: I had a couple of questions about the bag promotion, first what is the cost to you of providing a bag? Second, how do you make sure the retailer really has sold two clubs to a customer? And third, an ad you had I believe in the *Wall Street Journal* yesterday or two days ago encouraged the consumer to call you directly, how do the retailers respond to that suggestion as opposed to the alternative of the customer obtaining the bag through a retail purchase?

Barney Adams: John suffice to say that when we did this program we did a serious amount of homework to obtain a very, very high quality bag at a very good price. Secondly, as far as directing consumer inquiries into here, as in all of our efforts, what we try and do is deflect the sale to the retail level. This is not, we don't want to do this in house but we have increased our capability significantly in the last six months with our investment in infrastructure to handle these calls to divert them to the right retail accounts, the participating retail accounts and so on. So there is some value to directing calls in here.

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And then as far as making sure the retail actually sells the two bags, you know we do have a system in place, I mean we rehearsed this, I guess for a lack of a better word. I suppose if anybody really wanted to cheat us they could. I mean you can always cheat any system. But again, we're working with participating retailers and we have agreements with them.

John Weiss: So Barney when a call comes in you automatically refer the caller to a retailer? What if the customer just wants to buy it over the phone?

Barney Adams: Yeah if he's up in (DeBuke) and the nearest retailer is, you know, a hundred miles away we'll deal with them directly. But we try, our objective is to try and divert them to a retailer.

John Weiss: Thank you.

Operator: We'll go next to Roy McKay with Scudder Kemper.

Roy McKay: Yeah I'm just a little bit concerned Barney to hear you back away from, what I hear you saying is that sure you've got a two million share repurchase in place but you don't have any intention in doing it. Then you dodge the question of whether or not you're going to complete that program. You know, you've seen the market value of your corporation, which the public invested in, drop a hundred and thirty million dollars. The stock is between three and four, I can't imagine why you wouldn't double the repurchase program, if you really had the interest of the shareholders in mind.

Barney Adams: Well you know here I am, I'm damned if I do and I'm damned if I don't. We have a repurchase program in place. I don't think I heard anybody say we were going to

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stop it. I think what you heard us say is that if I called up twenty financial advisors, ten would tell me it's a good idea and ten would tell me it's a dumb idea.

Roy McKay: Well that's why you're the CEO, you have to decide what's the best interest of the shareholders.

Barney Adams: That's correct and I understand the emphasis of the word shareholders and there is a stock repurchase program in place and it has not been changed from when we first announced it.

Roy McKay: You want to see the (shortness) just go to two million shares just cancel your program.

Barney Adams: I appreciate your input.

Operator: Once again if you would like to ask a question you may signal by pressing the star key followed by the digit one. We'll go next to Jeff Klein, a private investor.

Jeff Klein: Good afternoon. I'm just interested to know if there's any discussion or investment in iron technology that might mirror what you've done with the fairway woods?

Barney Adams: Yeah, yeah there is Jeff. It's an ongoing project but our game plan has always been to introduce one category at a time so we can focus on it and focus on gaining market share. So you're absolutely right, there is a program internally on irons. In fact we've actually did prototypes as to when they're going to be running and when they're going to introduce I can't tell you because right now the first marketing emphasis is going to be on the driver.

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Jeff Klein: Are these prototypes or the possibilities, are these going to be completely different looking or different reacting type of irons?

Barney Adams: Yeah anything we introduce will be with a technically, technical, excuse me, with a technical story that's a benefit to the golfer.

Jeff Klein: Okay very good, thanks.

Barney Adams: Sure.

Patty Walsh: Ladies and gentlemen we have time for just one more call, question before we end the call.

Operator: Ms. Walsh it appears there are no further questions at this time. I'd like to turn the program back over to you.

Patty Walsh: Okay. Thank you. On behalf of Barney Adams, Darl Hatfield and myself I'd like to thank all of you for participating in our teleconference today. We plan to continue to hold quarterly teleconferences following each earnings release and you'll be notified by fax a few days prior to the call. Thank you again and good afternoon.

Operator: That concludes today's conference call, thank you everyone for your participation.

END

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Adams' Critical Issues

<u>Cause</u>	<u>Effect</u>
<ul style="list-style-type: none">• Costco	<ul style="list-style-type: none">• Eroding selling price and retail margins
<ul style="list-style-type: none">• Increasing Competition (Product Offering and Ad Messages)	<ul style="list-style-type: none">• Decreasing Market Share
<ul style="list-style-type: none">• Slowing Market Conditions	<ul style="list-style-type: none">• Lack of sell through and high retail inventories
<ul style="list-style-type: none">• "High Road" Marketing and Overly Aggressive Sales/Distribution	<ul style="list-style-type: none">• Insufficient Product Differentiation ("Why buy Tight Lies?")

ADAMS 002331